Alberta Legislature

Annual Report of the Auditor General 1991-92

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Alberta Legislature

Office of the Auditor General

Mr. T. Lund, MLA
Chairman
Standing Committee on
Legislative Offices

I have the honour to transmit herewith my Report to the Legislative Assembly for the fiscal year ended March 31, 1992, to be laid before the Legislative Assembly in accordance with the requirements of section 19(4) of the Auditor General Act.

Donald D. Salmon

FCA
Auditor General

Edmonton, Alberta
January 29, 1993

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Report For The Year Ended March 31, 1992

This report is issued pursuant to section 19 of the Auditor General Act. It is my seventh annual report to the Legislative Assembly and the fourteenth such report issued by the Auditor General of Alberta.

The report is for the year ended March 31, 1992. Some of the observations and recommendations it contains resulted from audit work carried out since that date.

Auditor General Act

The Auditor General Act requires that I perform financial audits to provide assurance that financial statements are fairly presented. In addition to adding credibility, my work allows me to provide recommendations to improve accounting and reporting practices, and rectify non-compliance with legislation.

The Auditor General Act also requires me to identify systems that I think can be improved. For this reason, the resources of my Office which are directed to systems auditing are used to identify improvements. This report contains recommendations which I believe will help the government improve the systems that relate to revenue, expenditure, assets, liabilities, and the measurement and reporting of effectiveness.

Summary conclusion

The scope and extent of audit work completed for 1991-92 is contained in section 2 of this report.

For every financial statement audited, I have issued an Auditor's Report. Section 3 contains information on reservations in my audit reports.

For the financial and management control systems examined, section 2 of this report contains all the significant improvements that my systems audits indicated were necessary at this time.

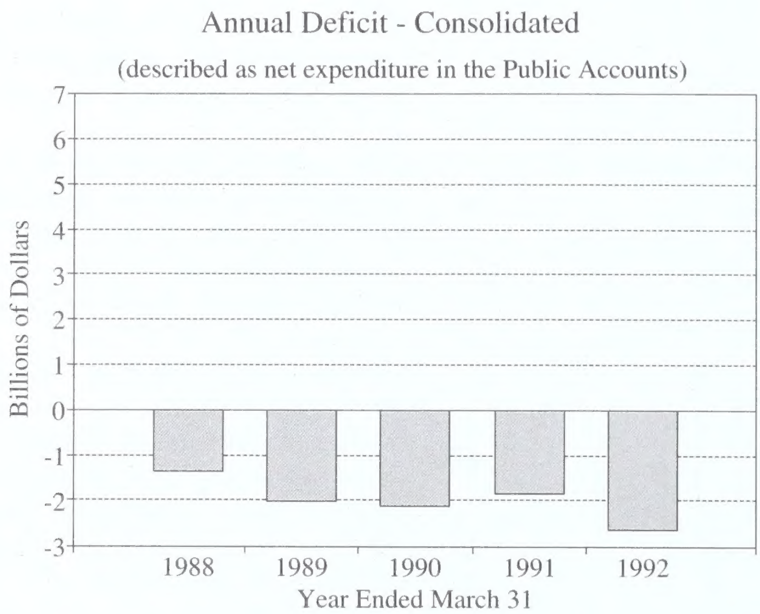
For those transactions and activities examined in financial statement audits, apart from the instances of non-compliance described in this report I am satisfied that they complied, in all significant respects, with relevant legislative authorities. The instances of non-compliance reported herein should not be used as a basis for drawing conclusions as to compliance or non-compliance with respect to matters not examined.

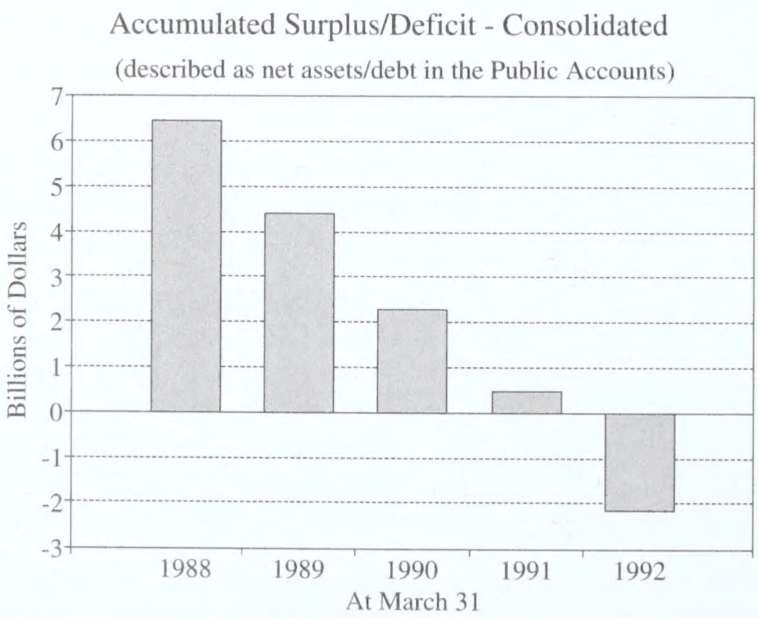
I am pleased with the action taken by management in response to many of my previous recommendations. However, the observations reported in section 2 of this report indicate that there is scope for further improvement in the financial administration of the Province.

Improving The Financial Administration Of The Province

Introduction

These charts illustrate the Province's consolidated annual deficit, and the change from an accumulated surplus to an accumulated deficit.





It is not my role to comment on the policy issues concerning Alberta's annual and accumulated deficit. It is, however, my role to comment on the systems used to manage, quantify and report on the Province's revenue, expenditure, assets and liabilities.

Given the magnitude of Alberta's annual deficits over the last several years, I believe that the government must develop systems more able to:

- predict and prepare budgets of revenue, expenditure, and cash flow.
- report intended and actual effects of program expenditures, and
- assess the effectiveness with which deputy ministers and senior managers are administering government policy.

I believe that, wherever possible, those managing public resources should deal with facts, and not opinions, on the effectiveness of programs. Timely information that is focused on results achieved, and their cost, is crucial to Members of the Legislative Assembly when setting future policy. Information on the results of government programs and their cost is needed to make sensible decisions to deal with Alberta's annual deficit.

Internationally, we know of governments that have taken steps to overhaul their financial administration. For example, the experience of New Zealand is evidence that much can be done by a government that has the desire to change the nature and extent of information available for the management of public resources. The New Zealand government now publishes half-yearly financial statements in addition to the annual financial statements. The government has moved away from cash-based accounting to full accrual accounting which distinguishes between operating and capital expenditures. Physical assets are depreciated over their useful lives rather than being written off in the year when the money is spent. One of the aims of better financial information is to make departmental managers more conscious of costs and the value of their assets.

Alberta was the first government in Canada to produce consolidated financial statements. It is the right time to show such leadership again in the management of public resources. The process of change should not be delayed simply because we do not presently have all the answers.

What needs to be improved

I have grouped the matters that need improvement under the following headings:

- The budgetary process
- The reporting process
- The review of Public Accounts

Some of the improvements needed can easily be achieved in the short-term. Other improvements may take several years to implement fully. However, I am confident that benefits will begin as soon as the process of change is started.

THE BUDGETARY PROCESS

Consolidated budget

I believe there is a need for a consolidated budget:

- to gain a better understanding of the Province's financial plans at the highest summary level, and
- to compare to actual results in the Province's consolidated financial statements.

At present, separate budgets are prepared for the General Revenue Fund, the Alberta Heritage Savings Trust Fund, and the Capital Fund. These individual budgets are essential, and are used as a basis for comparison with the actual results of each fund. However, a consolidated budget for the Province is not prepared.

Without a consolidated budget, Members of the Legislative Assembly cannot view the sum of the individual budgets. In other words, they are not given the whole picture.

Due to the many interfund transactions, it is not easy for anyone to understand the effect that each fund has on the total budget. For example, grants paid by the General Revenue Fund to the Alberta Mortgage and Housing Corporation are in part used by the Corporation to pay interest on its loans from the Alberta Heritage Savings Trust Fund. The interest income of the Heritage Fund is then transferred back to the General Revenue Fund. Put another way, expenditures in the General Revenue Fund are also reported as revenues of the same Fund.

Complicated interfund transactions of this type confuse the public, Members of the Legislative Assembly and even some accountants.

The confusion would be eliminated by preparing a consolidated budget which would remove all interfund transactions.

If the consolidated budget is to serve as a basis for comparison with the actual expenditures in the consolidated financial statements, it must include all planned expenditures. Including all expenditures would require that existing budgets approved by the Legislative Assembly be expanded to include:

- losses of Provincial agencies which are financed by borrowings. At present, losses of a Provincial agency or subsidiary which are financed by borrowings, are not authorized by the Legislative Assembly through an appropriation act. This lack of authorization was demonstrated by NovAtel which borrowed to finance its losses.

- planned Lottery Fund expenditures. At present, expenditures from the Lottery Fund are not authorized by the Legislative Assembly through an appropriation act.

Other budgets

Currently, the Public Accounts of Alberta do not include budget information in the financial statements of individual Provincial agencies and Crown-controlled organizations and their subsidiaries. As indicated in my report on NovAtel, I believe that such budget information should be included in the Public Accounts and used as a basis of comparison with actual results. If budget information had been available in the case of NovAtel, Members of the Legislative Assembly would probably have concluded that NovAtel's management was unduly optimistic prior to the large losses in 1990 and 1991.

Capital assets

There is a need to distinguish between expenditures on capital assets and operations. Since a capital asset such as a building lasts for several years, its cost should be charged to operations over its useful life. I believe that capital assets should not be charged to operations when purchased. Rather, they should be expensed as they are consumed.

The question of capitalizing and amortizing capital assets rather than expensing them in the year of acquisition is being discussed internationally. For example, the President-elect of the United States pointed out, in December 1992, that money spent on lasting assets - buildings, highways, and so on - can be viewed as an investment. He noted that commercial enterprises routinely borrow to invest without treating the investment as an expense.

Changing the policy for budgeting expenditures on capital assets would not in itself change the requirement for legislative approval

for their purchase, or the flow of money or the size of the Province's borrowings. However, it would result in better information on the annual cost of government programs. A call to "balance the budget" should be seen as a call to balance the consolidated operating budget. Borrowing to finance capital expenditure should not necessarily be viewed as inadvisable provided revenues are adequate to cover amortization and debt servicing costs.

THE REPORTING PROCESS

Timely reporting

The first improvement that should be made in the reporting process is to report earlier. I believe it is reasonable to expect the Provincial Treasurer to release the Province's Public Accounts within six months of the year end. The period between year end and release has been as much as a year. This year, the Provincial Treasurer released the consolidated financial statements for the year ended March 31, 1992 on December 23, 1992. The Province of Saskatchewan, through legislation, now requires that its Public Accounts be released by October 31, seven months following the year end.

Unrecorded assets and liabilities

The consolidated accumulated deficit of the Province at March 31, 1992, as illustrated on page 2, was $2.2 billion. Although this is the best measure at present of the Province's financial condition, the measurement can be improved.

The most significant omissions from the calculation of the accumulated deficit are:

- the Province's pension liability,
- the Province's capital assets, and
- the investment in Provincially-owned universities, colleges and hospitals.

Some of these assets and the liability can be measured easily. I acknowledge that it will take time and debate to attach an appropriate value to some of the Province's capital assets. For example, in determining suitable bases of valuation for specific types of capital assets, I believe it will be necessary to consider the government's purpose in owning the assets. However, it is my hope that the government will agree to a plan that will over time record all of the Province's assets and liabilities.

Program effectiveness

Government departments and Provincial agencies are generally not assessing and reporting on their effectiveness. As a result, there is very little public information on what was intended and achieved as a result of spending public resources.

In the private sector, where profit is used as a measure, financial statements disclose the profitability of an organization. The financial statements are a primary indicator of an organization's effectiveness, as profits are viewed as good, and non-temporary losses as bad.

Government expenditures should be as effective as possible to avoid higher taxes than necessary. Whereas a non-temporary government deficit is obviously bad, a balanced budget or a surplus provides no assurance that expenditures are effective since both could be achieved through higher than necessary taxes. If sensible decisions are to be made on program expenditures, it is essential that the financial statements be supplemented with information on effectiveness.

Information on effectiveness can take many forms, from the simple to the complex. The test of what is needed is what is useful to decision makers.

When considering the actions necessary to correct Alberta's operating deficit, I believe that members of the general public will first expect the government to assess the scope for delivering existing programs at less cost. If programs have to be cut, the public will expect that the least effective be cut first. And if the general public is asked to contribute significantly more by way of taxes and fees, then they need to be convinced that their funds are used effectively.

In my view, it is members of the general public who need information on program effectiveness because they are inescapably the decision makers when it comes to accepting a government's budgetary plans.

THE REVIEW OF PUBLIC ACCOUNTS

Work of the Public Accounts Committee

The Public Accounts, when tabled, are automatically referred to the Public Accounts Committee. Through this process, the government provides the Legislature with an audited accounting of what it has spent.

The Committee performs its work by calling government ministers to appear before it to answer any questions that arise from the members' review of Public Accounts and my annual report.

An effective Public Accounts Committee, working together with the Auditor General, can serve as a deterrent to poor administration and an incentive to rectify problems.

Suggestion for improved review

Based on my experience in working with Alberta's Public Accounts Committee, and observation of the practices in other jurisdictions, I have concluded that the Alberta Committee could function more effectively if:

- it encouraged a non-partisan approach by limiting its size to a maximum of 11 members rather than the current 21,

- it called deputy ministers and senior managers, who are primarily responsible for administration, rather than ministers, to be answerable for the implementation of government policy. The Committee should be concerned with ensuring that the policies and programs of government are implemented in an effective, efficient, and economical manner, and that the taxpayer is receiving value for monies spent,

- its agenda was directed at the problems identified in the Public Accounts and in the Auditor General's report,

- it gained an understanding of what is financially significant by starting its annual examination with the consolidated results and budget, and

- it prepared a report at least annually to the Legislative Assembly containing its findings and recommendations.

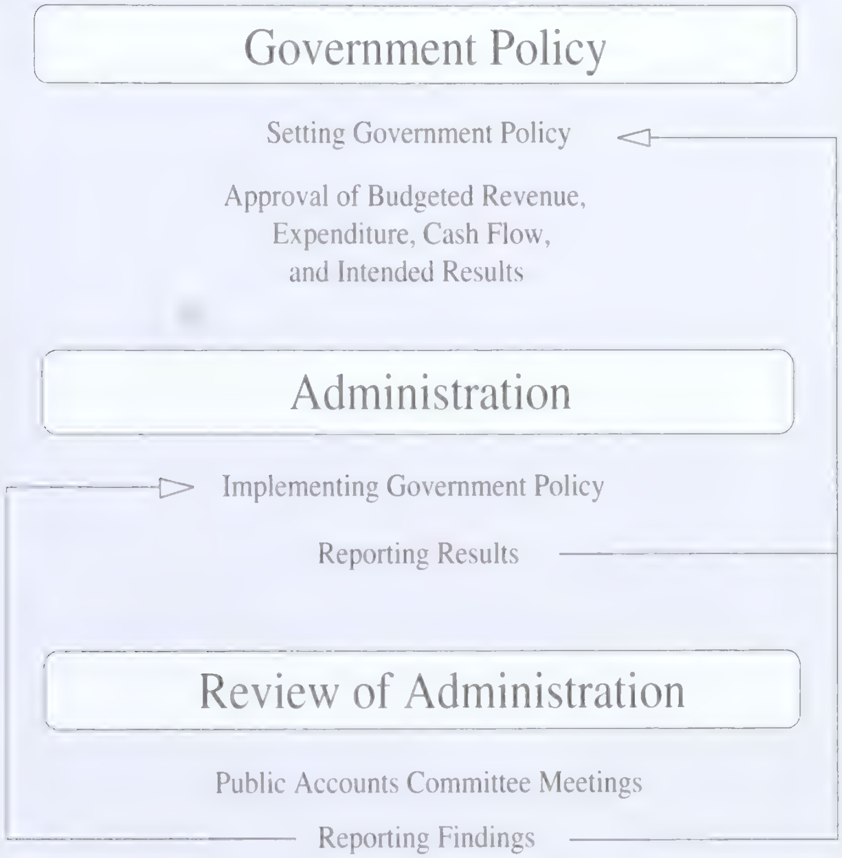
In 1989, a subcommittee of the Canadian Council of Public Accounts Committees published *Guidelines for Public Accounts Committees in Canada.* This document was prepared by legislators and may be useful to those interested in forming a view of how our Public Accounts Committee might best serve the interests of Alberta.

A framework

My view of the task ahead is based on an uncomplicated model. Administration and the review of administration are separate and distinct from policy creation, yet all are interrelated. In fact, legislators have a role in administration and government managers play a part in articulating policy.

The following diagram illustrates an appropriate linkage between government policy, administration, and the Public Accounts Committee. The diagram shows how results can influence future policy, and how the work of the Public Accounts Committee can contribute to improved administration.

A Framework
To Manage, Quantify And Report On The Province's Revenue, Expenditure, Assets and Liabilities



Goals

In my opinion, the shorter-term goals of the framework are:

<u>The budgeting process</u>

Goal

☞ A consolidated budget, and supporting budgets for consolidated entities, comprised of revenue, expenditure, cash flow, and intended results.

The reporting process

Goals

- ☞ Province's Public Accounts released within six months of the year end.
- ☞ Public Accounts which include the actual and budgeted amounts of consolidated revenue, expenditure and cash flow supported by similar information for all departments, Provincial agencies and Crown-controlled organizations.
- ☞ A plan to record all of the Province's assets and liabilities.
- ☞ Program managers providing the Legislative Assembly at appropriate intervals with suitable information on program effectiveness.

The review of Public Accounts

Goal

- ☞ A Public Accounts Committee focusing its attention on my annual reports and the more significant departures from budget as shown in Public Accounts; and preparing recommendations to the Legislative Assembly on how the administration of government policy could be improved. Comparing actual with budget is a logical first step in the absence of effectiveness information.

On page 13, I have included recommendations to Executive Council which are designed to create impetus for the changes that I have discussed above.

Alberta Heritage Savings Trust Fund

There has been frequent debate in the Legislature and elsewhere about the purpose and future of the Alberta Heritage Savings Trust Fund. The debate has focused on the relationship of the Heritage Fund with other funds and Provincial agencies, the value of assets in the Heritage Fund and the use of the Heritage Fund to reduce the Provincial debt.

I believe that there is a need to clarify certain matters concerning the Heritage Fund. To this end, I have included a commentary on the Heritage Fund together with a recommendation in the Treasury section of this report on page 37.

Guidance For The Reader

Section 2

Section 2 of the report describes the work of my Office for 1991-92. It contains the more significant audit observations and recommendations that were reported to management as a result of that work. When determining significance, I consider the nature and materiality of the matter relative to the individual entity and the government as a whole.

The recommendations that I consider most significant and which particularly warrant the attention of the Legislative Assembly are numbered and shown on a shaded background.

Section 3

Section 3 of the report describes the reporting process, contains a summary of the audit report reservations issued for 1991-92, includes my section 18 report, and discusses the audit of the Public Accounts. The section also has a brief commentary on the Province's consolidation methods, and includes consolidated operating statistics.

Section 4

Section 4 presents my legislative mandate and the mission of the Audit Office. It includes an explanation of accounting principles, auditing standards and the Office's audit approach. The organization of the Audit Office is also described.

Acknowledgements

Pursuant to section 19(1)(b) of the Auditor General Act, I am pleased to report that in carrying out the work of my Office I received all the information, reports and explanations that were required.

I am pleased to acknowledge with gratitude the excellent co-operation extended to my staff by management of departments, agencies, and other organizations audited.

Furthermore, I wish to express sincere appreciation for the efforts of my staff in completing the many assignments arising from the work of the Office this past year. Their timely contributions have culminated in the completion of this annual report.

Donald D. Salmon

FCA
Auditor General

Edmonton, Alberta
January 18, 1993

Improving The Financial Administration Of The Province

I reported to the President of the Executive Council on NovAtel and also made my report public on September 25, 1992. The report included five recommendations to the government aimed at helping to prevent future loss of public funds by improving accountability processes. In section 1 of this report, keeping my NovAtel recommendations in mind, I have discussed improvements that I believe are necessary to the Province's budgetary and reporting processes and the review of Public Accounts.

I believe it would now be useful for me to integrate my NovAtel recommendations with recommendations covering the matters discussed in section 1. The recommendations are directed to Executive Council for such action as is considered necessary since they do not relate to individual ministers.

By improving the systems for producing timely and factual information on results intended and achieved and their cost, and by encouraging the review of administration, the government can significantly improve its accountability. Collectively, my recommendations are asking the government to publicly define what it proposes to do, and then account for its use of public funds.

The budgetary process

Consolidated budget

Recommendation No. 1

It is recommended that the government prepare annual consolidated budgets in order to communicate financial plans at the highest summary level and for subsequent comparison to the Province's consolidated financial statements.

The reporting process

Timeliness of reporting

Recommendation No. 2

It is recommended that the government release the Province's 1992-93 Public Accounts by September 30, 1993.

Public Accounts

Recommendation No. 3

It is recommended that the Public Accounts of Alberta include the financial statements of all Provincial agencies and Crown-controlled organizations, and their subsidiaries.

It is recommended that all financial statements included in Public Accounts contain a comparison of actual and budgeted amounts of revenue, expenditure and cash flow.

Assets and liabilities

Recommendation No. 4

It is recommended that the government prepare and make public a plan that will over time record all of the Province's assets and liabilities. The plan should start by dealing with the Province's unrecorded pension liability. The plan should then deal with recording the unconsumed cost or value of specific types of capital assets. Various bases of valuation may be appropriate for capital assets depending on their purpose.

Effectiveness reporting

Recommendation No. 5

It is recommended that the government establish a system for promoting effectiveness measurement. The system should be designed to support ministers' attempts to encourage effectiveness measurement within their departments and assist program managers in providing the Legislative Assembly at appropriate intervals with suitable information on program effectiveness. Effectiveness measurements should be as simple as possible to identify potential program improvements.

The review of Public Accounts

Public Accounts Committee

Recommendation No. 6

It is recommended that the Public Accounts Committee:

- set its agenda by reference to the Public Accounts and the Auditor General's Report,

- call deputy ministers and senior managers, who are primarily responsible for administration, rather than ministers, to be answerable for the implementation of government policy, and

- prepare recommendations to the Legislative Assembly on how the administration of government policy could be improved.

Appointments

Appointments to boards

Recommendation No. 7

It is recommended that the Province consider using the expertise of the Public Service Commissioner to short-list suitably qualified candidates for appointments to the boards of all Provincial agencies and Crown-controlled organizations. The primary criterion for selection of candidates should be proven relevant expertise.

Definition of a Crown-controlled organization

Definition of a Crown-controlled organization

Recommendation No. 8

It is recommended that the definition of a Crown-controlled organization be widened to include a 50% interest in, or equal control of, an organization. This change would extend the application of my previous recommendations to any use of public funds in joint ventures.

Department of Executive Council
year ended March 31, 1992

In addition to the annual financial audit, the following work was completed:

- An examination of the systems used by the Public Affairs Bureau to procure government advertising, publications, printing and audio visual services.

- An examination of the systems used by the agencies that verified the eligibility of farmers who applied for benefits under the 1990 Southeastern Alberta Disaster Assistance Program (Drought).

- An examination of the systems used by Alberta Public Safety Services to process disaster assistance applications and to prepare and submit federal cost-sharing claims to the Government of Canada under the Federal Government Disaster Financial Assistance Arrangements Program.

- Audits of federal cost-sharing claims submitted by Alberta Public Safety Services to the Government of Canada under the Joint Emergency Preparedness Program.

Public Affairs Bureau

Legislative authorities

The Public Affairs Bureau operates under outdated legislative authorities.

The Bureau is responsible for managing the public relations and information services of departments and Provincial agencies and is responsible for all government advertising, publications and printing. In addition, the Bureau is responsible for the co-ordination of audio visual production. Departments are expected to submit all requests for these services to the Bureau.

The objectives of the Bureau are to achieve the best services and materials at the best price, to ensure consistency of standards in acquired services and materials and to equitably allocate orders for services and materials among qualified private sector suppliers.

The Bureau and its responsibilities were established by Orders in Council in 1972 and 1973, and a Treasury Board Minute in 1976. The Bureau is "responsible for all Government advertising, publications and printing." However, changes in technology provide opportunities for departments to economically do this work themselves.

Parts of the Treasury Board Directive are no longer relevant. For example, the Directive states that "In order to provide a fast, efficient and economical duplicating service to departments and to halt the proliferation of duplicating or photocopying equipment throughout the Government, all duplicating of 8½ x 11" or 8½ x 14" originals in the order of 10 - 3,000 copies are to be submitted to an Alberta Government Services Quick Print Centre for processing." Departments now have photocopying equipment that will produce high volume copies efficiently and economically.

Because of the outdated provisions, Departments and agencies do not comply with the Order in Council and the Treasury Board Directive. Recognizing technological improvements when updating the authorities for the Public Affairs Bureau would remove unnecessary requirements, clarify its mandate, and help it achieve its objectives.

In a management letter to the Managing Director at the conclusion of the audit, it was recommended that the Public Affairs Bureau seek to clarify its mandate by requesting that its legislative authorities be updated.

Alberta Public Safety Services

Claims

Alberta Public Safety Services needs to speed up collection of amounts due from the Government of Canada for cost-sharing claims.

Alberta Public Safety Services provides assistance to government departments, municipalities and individuals who have to deal with emergencies or disasters. Alberta Public Safety Services can claim some costs for these emergencies or disasters from the Government of Canada under its Disaster Financial Assistance Program.

Amounts are owing to the Province of Alberta from the Government of Canada for the following disasters which cost the Province $88.1 million:

1986	Flood	Central Alberta	$17.1M
1987	Tornado	Edmonton	$38.4M
1988	Flood	Slave Lake	$13.8M
1990	Flood	Western Alberta	$18.8M

Approximately $41 million of these expenditures is recoverable from the Government of Canada. At the time of my examination, the Government of Canada had made advance payments amounting to $29.5 million for the 1986 and 1987 disasters. However, Alberta

Public Safety Services had not made requests for advance payments for the 1988 and 1990 disasters.

The Disaster Financial Assistance Program Guidelines indicate that provinces do not have to wait until they have processed all applications before submitting requests for advance payments.

Alberta Public Safety Services had substantially completed processing payments to applicants for disaster assistance for the 1986, 1987 and 1988 disasters before the end of 1990. However, at the time of my examination, it had not completed its analysis of costs for these disasters to determine final amounts due from the Government of Canada.

Earlier requests for payments will have a positive effect on the Province's cash flow.

In a management letter to the Managing Director, it was recommended that Alberta Public Safety Services request payments under the Federal Government Disaster Financial Assistance Program when the Province incurs costs eligible for sharing by the federal government. It was also recommended that Alberta Public Safety Services submit a final accounting to the Government of Canada when it has completed processing applications for disaster assistance. I have since been informed that Alberta Public Safety Services has submitted a final claim for the 1986, 1987 and 1988 disasters.

1990 Southeastern Alberta Disaster Assistance Program

This Program was implemented in 1991-92 to provide assistance to farmers who had suffered through a decade of drought in southeastern Alberta. My 1990-91 report (page 61) included recommendations that arose from an audit of the systems used by Alberta Public Safety Services to plan, budget for, and implement the Program. Since then, further audit work has been performed on the systems used by various agencies to verify the eligibility of farmers and to pay the benefits.

<u>Program delivery</u>

Unsuccessful delegation of responsibilities for the administration of the 1990 Southeastern Alberta Disaster Assistance Program resulted in benefits being delivered inconsistently.

Several Alberta government agencies were involved in delivering the Program. Regional and district offices of the Department of Agriculture and the Alberta Hail and Crop Insurance Corporation provided information to applicants, and verified the application

information. The Alberta Agricultural Development Corporation processed and advanced the approved grants and loans.

Unfortunately, very little documentation was available to staff at the agencies describing the Program's administrative policies and control procedures. Adequate documentation relating to eligibility criteria and each agency's responsibilities was also lacking. Minutes were not kept of meetings at which program design and administration decisions were made.

For these reasons, there were inconsistencies in the way the program benefits were distributed. Processing practices differed between offices apparently because eligibility criteria and responsibilities were unclear and changing. These difficulties caused confusion which was compounded by the urgent requirement to disburse funds. Errors in benefit calculations occurred, particularly in crop-loss calculations.

Alberta Public Safety Services provided the funds for the Program, and is therefore accountable for those funds to the Legislative Assembly. Although it delegated program delivery activities to other government agencies, Alberta Public Safety Services still retains responsibility for ensuring that the funds are disbursed with adequate control and approval.

In a management letter to the Managing Director at the conclusion of the audit, it was recommended that when Alberta Public Safety Services involves other government agencies in the delivery of benefits under its programs, it define how responsibilities for program definition, delivery and administration are to be shared between the agencies. In addition, Alberta Public Safety Services should be satisfied that control procedures are operating to ensure that benefits are delivered consistently and accurately to qualified applicants.

Alberta Public Safety Services has since agreed that memoranda of understanding will be developed for future programs to outline eligibility criteria and the responsibilities of all parties involved.

Program budgeting

In my 1990-91 annual report (page 62), I stated that the information in the Province's 1991-92 Estimates of Expenditure about the Southeastern Alberta Disaster Assistance Program and its anticipated costs was seriously incomplete. I recommended that, in future, all available cost estimates and program descriptions for new programs be included in the Province's Estimates for the year in which programs are implemented.

The 1992-93 Estimates of Expenditure for Vote 6, Disaster Services and Dangerous Goods Control, include a budget for the Program as well as a description of the Program's objectives and delivery mechanisms.

Program objectives

In my 1990-91 annual report (page 63), I noted that there were differing views as to the Program's real objectives, and that some of the eligibility criteria appeared to be inconsistent with the Program's published objectives. I recommended that Alberta Public Safety Services ensure that the objectives and rationale for its programs be clearly communicated to all concerned, particularly to people responsible for program delivery and people eligible to receive program benefits. I also recommended that eligibility criteria be consistent with the published objectives of the programs.

Alberta Public Safety Services has indicated that, in future, efforts will be increased to ensure that clear and concise program objectives and eligibility criteria are published.

ENTITIES ADMINISTERED BY MEMBERS OF THE EXECUTIVE COUNCIL

Certain members of the Executive Council have been charged by the Lieutenant Governor in Council with the administration of the following Acts:

- Alcohol and Drug Abuse Act
- Interprovincial Lottery Act
- Metis Settlements Accord Implementation Act
- Racing Commission Act
- Wild Rose Foundation Act
- Workers' Compensation Act

My observations on the entities which operate pursuant to these Acts are, therefore, included here under Executive Council.

Lottery Fund
year ended March 31, 1992

Accountability

Lottery revenues are public monies and should be subject to public accountability. To achieve the required accountability, certain issues need to be considered.

I do not feel that making the Western Canada Lottery Corporation and the Western Canada Lottery Alberta Division financial

statements available on request, as has been suggested by the government, constitutes appropriate accountability for the expenditure of public funds by these two organizations. Also, I am not yet satisfied that expenditures made from the Lottery Fund are subject to appropriate accountability.

The Minister is delivering programs in areas where responsibility for providing services has been conferred on other government departments. These areas include tourism, recreation, agriculture, culture, health, and municipal services. It has been stated that the Lottery Fund is merely providing funds for programs for which other Ministers are taking full responsibility. However, program funding and delivery should go hand-in-hand to ensure efficiency.

The General Revenue Fund, the Alberta Heritage Savings Trust Fund and the Alberta Capital Fund, which have many similarities to the Lottery Fund, have their budgeted expenditures authorized by the Legislature through an appropriation act. However, annual Lottery Fund expenditures are not authorized in this manner. Management should consider whether proceeds of lottery revenues should be transferred to the General Revenue Fund immediately following their deposit into the Lottery Fund. Such action would obviate any need for a separate annual appropriation act.

If Members of the Legislative Assembly are to influence the Province's financial affairs, they must have a clear understanding of the mandates and responsibilities of the various government operating entities. They must also have adequate financial and other accountability information and a formally allotted time and place to provide their input as to the use of public resources.

The current financial information involving lottery revenues is too fragmented for Members of the Legislative Assembly to use effectively. At the present time it is necessary to assemble expenditure information from several sources in order to determine the planned and actual costs of providing public services that are partly financed by lottery monies.

The responsibilities and accountability for the use of all lottery revenues should be reconsidered, especially under current economic conditions. Lottery revenues are the only public monies not subject to a ranking of priorities as embodied in the annual fiscal planning process. As a result, there is no opportunity for the planned use of such funds to be reviewed or to be challenged by Members of the Legislative Assembly.

Meaningful accountability requires management responsible for public monies to choose to be accountable, to understand the needs

of those MLAs who want to influence the supply of public services within available resources, and to allow MLAs to provide input on the planned use of public monies.

I believe that the Legislative Assembly cannot be absolved from its ultimate responsibility over public monies because certain public monies are derived from a "voluntary source." The Assembly should receive adequate accountability information and should have an opportunity to exercise its responsibility over all public money.

Because certain previous recommendations concerning lottery revenues have not been accepted by the government, I have decided not to include any recommendations at this time. However, matters pertaining to a wider context of government accountability, which includes lottery revenues, have been discussed in section 1 of this report and are the subject of recommendations addressed to the Executive Council.

The Workers' Compensation Board
year ended December 31, 1991

Liability for claims

The Board would be better able to manage claims costs, and consequently, assessment revenue and its $601 million accumulated deficit if it conducted a more detailed analysis of the annual change in its liability for claims.

Each year, the Board makes an estimate of the year end liability for claims benefits payable to injured workers. This liability has grown by approximately $850 million over the past five years to $2,410 million at December 31, 1991.

There are many reasons for the annual change in the amount of the liability. For example, there are new claims from injured workers, settlements of existing claims, and changes in assumptions, such as the rate of inflation and the life expectancy of injured workers. Although management has made some progress, the Board is not yet in a position to identify the amount of each separate component of the change in the liability.

By fully analyzing the annual change in the liability for claims from year to year, the Board will gain a better understanding of the factors underlying substantial increases in recorded claim costs. With an increased understanding of these factors, the Board will be in a position to better manage its costs, and consequently, more accurately predict required assessment revenue and formulate sound strategies to reduce the deficit.

In a management letter to the Board's Chairman at the conclusion of the audit, I made the following recommendation:

The Workers' Compensation Board - Liability for claims

Recommendation No. 9

It is recommended that The Workers' Compensation Board fully analyze the annual change in the liability for claims to more effectively manage assessment revenue and the accumulated deficit.

I have since been informed that management has begun to analyze the annual change in the liability for claims.

Health care costs

In my 1990-91 annual report (page 66), I indicated that the Board did not correctly identify work related health care costs for which it was responsible.

The Workers' Compensation Board makes payments to the Department of Health for health care services that are the responsibility of the Board. Both the Department and the Board rely on workers to inform health care service providers that they need treatment due to a work related injury. The Department does not recover claims when service providers fail to indicate that the treatment is needed because the injury is work related.

The Board and the Department have been comparing Board accident reports to Departmental health care records and have been able to identify potential work related health care costs. They hope to complete their work in early 1993 and my staff will continue to monitor their progress.

Other entities

Financial audits of the following were also completed for the year ended March 31, 1992:

Alberta Alcohol and Drug Abuse Commission
Alberta Racing Commission
Metis Settlements Transition Commission
Metis Settlements Transition Fund
The Wild Rose Foundation

Consolidated Financial Statements of the Province
year ended March 31, 1992

The Province's 1991-92 consolidated financial statements are published in the Public Accounts. The consolidated financial statements together with the General Revenue Fund financial statements were released by the Provincial Treasurer on December 23, 1992. The notes to the consolidated financial statements explain the accounting policies and reporting practices employed in preparing them. Page 163 of this report contains commentary on the consolidation methods used, together with selected consolidated operating statistics.

I was able to report without reservation on the Province's consolidated financial statements for the year ended March 31, 1992. My report is reproduced on page 162 of this report.

Most of the figures that make up the Province's consolidated financial statements are audited during the annual audits of the various departments, funds and agencies that are consolidated. Observations and recommendations arising from those audits are reported in this section of the report.

General Revenue Fund
year ended March 31, 1992

The financial statements of the General Revenue Fund report the revenues and expenditures of the twenty-three government departments and the Legislative Assembly, including its Legislative Officers, together with the financial assets and liabilities they administer.

I was able to report without reservation on the General Revenue Fund financial statements for the year ended March 31, 1992.

Pension liability

The Province continues to exclude from the reported net debt its liability for pension obligations.

The liability arises from several pension plans administered and guaranteed by the Province, namely, the Local Authorities, Public Service, Public Service Management, Universities Academic, Special Forces, Members of the Legislative Assembly and Provincial Judges and Masters in Chambers pension plans. Also included in the liability is an amount arising from a plan operated under the Teachers' Retirement Fund Act, which is guaranteed by the Province.

In each of my annual reports over the past six years, I have recommended that the Provincial Treasurer record in the financial statements the liability arising from the various pension plans administered and/or guaranteed by the Province.

Liability at March 31, 1992

In my 1990-91 annual report (page 7), I reported that the estimated unrecorded pension liability for the pension plans totalled $6,000 million. This total was made up of $3,600 million for the administered plans as at March 31, 1990, and $2,400 million for the Teachers' plan as at August 31, 1989.

The liability for the Provincial Judges and Masters in Chambers plan was estimated to be $23 million at the time the plan was established in 1988 and it has not been updated since then. At March 31, 1992, the Fund for this plan had assets of $41 million. Since current information about the liability for this plan is not available, I have not included it in the overall pension liability discussed in the remainder of this section.

Based on the latest available actuarial information, and based on the legislation in effect as at March 31, 1992, the amount of the unrecorded pension liability has been revised to $5,731 million as shown below:

	Millions
Actuary's valuation of the liability of the administered plans at December 31, 1991	$ 9,731
Less: Market value of Pension Fund net assets at December 31, 1991	6,900
	2,831
Actuary's projection of the unfunded pension liability of the Teachers' Retirement Fund at August 31, 1991	2,900
Total unrecorded pension liability	$ 5,731

New actuarial valuations were prepared for the administered plans using revised economic assumptions at December 31, 1991. These showed that the estimated unrecorded pension liability arising from those plans decreased from $3,600 million to $2,831 million. This decrease in the net unrecorded liability was due mainly to two reasons. The return on pension fund assets since the last valuation was greater than expected. Also, the economic assumptions were

changed to lower inflation rates in the next five years and lower future salary increases.

I reported last year that the unrecorded liability of the Teachers' Retirement Fund was $2,400 million as at August 31, 1989. There has been no new actuarial valuation of the liability for that plan since then, so there is no actuarial information available as at December 31, 1991, the date of the valuations of the six administered plans. Accordingly, in order to provide the best available summary of the total estimated unrecorded pension liability for the pension plans, I have used an actuarial projection as at August 31, 1991, to estimate the Teachers' plan pension liability at $2,900 million. This projection is based on the actuary's valuation as at August 31, 1989.

The amount of the Province's liability for the Teachers' plan was significantly reduced as a result of legislation which was passed subsequent to March 31, 1992. The liability for five of the administered plans will also be reduced if legislation is passed which implements changes to these plans which have been agreed between the Provincial Treasurer and stakeholders.

Changes to liability subsequent to March 31, 1992

There have been significant developments since March 31, 1992, to resolve the funding of the Province's pension liabilities.

The Provincial Treasurer has had extensive discussions and meetings with the stakeholders of the Local Authorities, Public Service, Public Service Management, Universities Academic, Special Forces and Teachers' plans. The handling of the unfunded liability arising from the Members of the Legislative Assembly plan is still unresolved. However, firm action has been taken to resolve the funding concerns of the other plans.

Subsequent to March 31, 1992, the Teachers' Retirement Fund Amendment Act, 1992 was passed by the Legislature. The Province will make contributions through to August 31, 2060, to eliminate 67.35% of this plan's unfunded liability. The teachers are responsible for the remaining 32.65% of the liability.

Further, the Provincial Treasurer introduced other legislation, which has not yet been passed by the Legislature, directed at eliminating the unfunded pension liability for the Local Authorities, Public Service, Universities Academic and Special Forces pension plans. Although legislation was not introduced for the Public Service Management plan, there is an agreement with the stakeholders of this plan on a process to reduce the unfunded liability.

In general terms, if all of the proposals mentioned in the preceding paragraph are implemented, their effect together with legislation already passed for the Teachers' plan, will be to reduce the Province's unrecorded liability from $5,731 million to $3,645 million, a decrease of $2,086 million. In effect, the responsibility for $2,086 million of the liability will be assumed by the employers and employees of the various plans. It should be noted, however, that the Province may be requested to provide additional grants to assist those employers to meet their additional pension obligations.

The Treasury Department has estimated that the Province's reduced unfunded liability, amounting to $3,645 million, will be substantially settled as follows:

	Millions
Future contributions from the Province to the Teachers' Retirement Fund through August 31, 2060	$ 1,950
Future contributions from the Province for the Local Authorities, Public Service, Public Service Management, Universities Academic and Special Forces plans over the next 45 to 52 years	1,226
Province's future residual obligation for Public Service Management and Special Forces plans for which funding has not been determined	414
Unfunded liability for Members of the Legislative Assembly plan for which funding has not been determined	55
Total unfunded pension liability	$ 3,645

Once current activity to obtain a solution to the problem of funding the liability for pension obligations is finalized, I encourage the Provincial Treasurer to record the pension liability in the financial statements. Based on the best available information, the liability of the Province is $3,645 million assuming all of the agreements are implemented through legislation.

Teachers' plan valuation as at August 31, 1992

At the date of this report, a new actuarial valuation as at August 31, 1992 is being prepared for the Teachers' plan. Indications are that this valuation will probably show a significant increase in the unfunded liability over the August 31, 1991 actuarial projection. A major reason for any increase is the interest cost on the unfunded liability.

In a management letter to the Deputy Provincial Treasurer, Management and Control, I again made the following recommendation:

Treasury Department - Pension liability

Recommendation No. 10

It is recommended that the Treasury Department include the liability for the Province's pension obligations in the 1992-93 consolidated and General Revenue Fund financial statements.

In response to this recommendation in my 1990-91 report, the Treasury Department has agreed to consider the accounting policy for reporting pension obligations before the 1992-93 financial statements are prepared.

Long-term disability costs

The Province does not include the liabilities of its long-term disability plans in the consolidated and General Revenue Fund financial statements. In my 1990-91 report (page 8), I recommended that the Treasury Department record the full costs and liabilities of the long-term disability plans in the Province's financial statements.

As an employer, the Province incurs payroll related costs that include the costs of two long-term disability benefit plans. These plans provide a continuation of income to employees who are unable to work as a result of an injury, illness or disability.

Under the present accounting practice, the costs of long-term disability benefits to employees are recorded on a cash basis. An expenditure is recorded when a payment is made to a disabled employee, rather than being recorded over the period of service by the employee.

This practice is followed because the government is of the opinion that an employee does not earn future benefits and is entitled to receive benefits only while disabled.

The disadvantage with using a cash basis when reporting costs is that it can mislead because it postpones recognizing the cost which, in fact, arises during the period of service of the employees.

The Personnel Administration Office has estimated the unrecorded liability to be $75 million at March 31, 1992. This amount is $16 million more than the previous year's liability due to increases in estimated claims costs and the number of claimants.

This estimated liability is similar in nature to the actuarial liabilities calculated for pension obligations. As with pensions, disability benefits are earned by employees at the time their services are provided to the Province.

In a management letter to the Deputy Provincial Treasurer, Management and Control, I again made the following recommendation:

> Treasury Department - Long-term disability costs
>
> **Recommendation No. 11**
>
> It is recommended that the Treasury Department record in the 1992-93 consolidated and General Revenue Fund financial statements, the full costs and related liabilities of the Province's long-term disability plans.

Crown-Controlled Organizations

Crown-controlled organizations are defined by section 1(b) of the Auditor General Act. Those operating during 1991-92 were:

Gainers Inc.
Northern Steel Inc.
North West Trust Company
354713 Alberta Ltd.

The Province's control of Gainers Inc. arose as a result of a master agreement, entered into with the parent of Gainers Inc. on September 25, 1987, to provide a term loan facility and loan guarantee on a promissory note. Certain conditions of the agreement were not met and the Province took control of Gainers Inc. on October 6, 1989.

The Province's control of Northern Steel Inc. arose on June 12, 1989, as a result of an agreement with the major shareholder of the company. Under that agreement, the Province provided further financial support to supplement a previous loan and two prior guarantees. The company had significant operating losses and as a result had defaulted on a loan and a lease guaranteed by the Province.

The Province's investment in North West Trust Company and 354713 Alberta Ltd. arose from a rehabilitation agreement concluded by the companies, the Province and the Canada Deposit Insurance Corporation, effective January 1, 1987. The agreement and

investment provided North West Trust Company with an improved capital base and a framework to return it to viable operations.

If the accounts of a Crown-controlled organization are audited by a person other than the Auditor General, then that person is obliged to comply with section 16 of the Auditor General Act and provide the Auditor General with certain information.

In accordance with section 16 of the Act, the firms that performed the audits of Gainers Inc. for the year ended September 28, 1991, North West Trust Company for the year ended December 31, 1991, and 354713 Alberta Ltd. for the year ended March 31, 1992, delivered to the Auditor General copies of their reports to management and the audited financial statements. Also, the audit firms provided access to their working papers and full explanations of the extent of the audit work and the results obtained from that work.

The following matters have come to my attention during the reviews of the audit firms' working papers and financial statements of the Crown-controlled organizations, as well as during my review of information held by the Treasury Department in the case of Northern Steel, and warrant, in my opinion, the attention of the Legislative Assembly.

Gainers Inc.

The auditors' report on the consolidated financial statements of Gainers Inc. contained a reservation of opinion on a $12 million asset called "Investment in and amounts due from former affiliates."

Specifically, the auditors stated that as a result of the change in ownership of the company on October 6, 1989, they were unable to obtain any financial information to support the carrying value of the investment in and amounts due from former affiliates. As a result, they were not able to determine whether any adjustments might be necessary to that carrying value and consequently to the financial statements.

The company had a loss for the year of $18,314,000 (1990 $20,324,000) and an accumulated deficit at the end of the year of $80,868,000 (1990 $62,554,000).

I am satisfied that these losses have been adequately provided for in the consolidated and General Revenue Fund financial statements.

The company's financial statements have not been tabled in the Legislature. Audited financial statements for 1992 have not been finalized.

Northern Steel Inc.

In October 1991, Northern Steel Inc. was placed into receivership. As a result, no audited financial statements were prepared at December 31, 1991. Most of the company's assets have been sold.

Proceeds from the disposal of the assets were used to partially retire the company's debt.

I am satisfied that these losses have been adequately provided for in the consolidated and General Revenue Fund financial statements. Subsequent to March 31, 1992, approximately $13 million was paid from the General Revenue Fund to retire substantially all of the company's remaining net debt.

North West Trust

The North West Trust Company financial statements for the year ended December 31, 1991 have been released to the public. Net income for the year was $1,039,000 (1990 $7,067,000).

354713 Alberta Ltd.

The company had a loss for the year of $21,291,000 (1991 $18,329,000) and an accumulated deficit at March 31, 1992 of $68,366,000 (1991 $56,775,000).

I am satisfied that these losses have been adequately provided for in the consolidated and General Revenue Fund financial statements.

The company's March 31, 1992 financial statements have not been tabled in the Legislature.

Treasury Department
year ended March 31, 1992

Evaluating and monitoring specific loan guarantees

In my 1990-91 report (page 13), I recommended that the Treasury Department specify the minimum information to be supplied by other departments to support specific loan guarantee proposals. I also recommended that the Treasury Department assist its financial analysts by documenting procedures for monitoring specific loans guaranteed by the Province.

Treasury Department has now told other departments what information is needed. Also, the Department has a draft of a revised internal procedures manual to be used by analysts.

My staff will review the manual when it is complete.

Alberta Royalty Tax Credits

The Department has not established a link between royalties received by the Province and Alberta royalty tax credits given by the Province to taxpayers. This link is needed because the credits claimed by taxpayers are based on the amount of royalties paid to the Province. Without this control, the Province does not have assurance that the amount of credits provided to taxpayers is correct.

The Alberta Royalty Tax Credits program is complex. Crown Royalty is collected by the Department of Energy from the operators of oil wells and gas plants. However, tax credits are claimed by corporations, trusts and individuals who are the beneficial owners of producing properties. Not all beneficial owners are operators. Due to the complexities of the program, it is very difficult to link the royalties paid to the Province with the royalty tax credits claimed by the beneficial owners.

Annual royalty tax credits are disclosed as a deduction from budgetary revenue. The cost of the credits in 1991-92 was approximately $278 million. Of this amount, $205 million was paid by the Province directly to beneficial owners of oil and gas wells and $73 million was deducted by taxpayers from taxes that would otherwise have been payable to the Province.

In my 1990-91 annual report (page 14), I noted that some royalty tax credit claimants are submitting inappropriate claims and the management systems in the Treasury Department's Corporate Tax Administration do not provide all of the information required to control claims.

I also commented that, in my view, adequate control can only be achieved if the complexities of the program are reduced. However, greater control might be achieved if the Department of Energy could provide information which identifies the beneficial owners of oil wells and gas plants.

Corporate Tax Administration now has a plan to examine the various control issues and to look at the possibilities of linking the data. The Treasury Department believes that it will be able to achieve an appropriate solution to the problem.

As my concerns are not yet resolved, in a management letter to the Deputy Provincial Treasurer, Finance and Revenue at the conclusion of the audit, I again made the following recommendation:

> Treasury Department - Alberta Royalty Tax Credits
>
> **Recommendation No. 12**
>
> It is recommended that the Treasury Department establish a link between royalties received and credits given by the Province in order to have assurance that the amount of credits provided is correct.

Pensions Administration

Control over the completeness and accuracy of information entered into the contributor system continues to be inadequate.

The contributor system accumulates information on participating contributors, amounts contributed, pensionable earnings, and periods of service gathered during the period of employment. There are approximately 150,000 contributors under the plans administered by the Province.

The Treasury Department needs to ensure that data added to the system is complete and accurate so that in time it will be able to rely entirely on the system. At present, this is not possible because past data is not completely reliable.

As a result, to ensure that pension entitlements are correctly calculated when retirements or terminations occur, Treasury Department staff must manually check contributor information to other records or contact previous employers to verify data. This is not entirely satisfactory as this corroborating information is also not always available.

The information in the system is also used by the actuary to calculate the Province's pension obligations. Inaccurate data on the system will cause the actuary's estimate of the pension liability to be incorrect.

To ensure that new information added to the system is complete and accurate, one of the key controls is for Pensions Administration staff to receive and review an annual audited return from each employer. The annual return consists of an auditors' report and accompanying annual contributor information.

These returns, however, are not being properly reviewed. My staff examined 40 returns which were considered to be complete by

Pensions Administration staff. Eight of those returns were incomplete and potential adjustments to the contributor system were ignored.

In my last annual report (page 16), I also reported that this control was not operating satisfactorily. At that time, 50 of the approximately 570 employer organizations which should have submitted an annual audited return on contributor information by July 1990 had not done so at October 1991.

The situation has not improved since then. There is still a delay in receiving and reviewing returns for possible corrections to information in the contributor system. At August 1992, 14 returns due by July 1990 and 29 due by July 1991 had not been received. In addition, 227 returns due by July 1992 were outstanding.

In a management letter to the Deputy Provincial Treasurer, Management and Control at the conclusion of the audit, it was recommended that the Department improve controls over the completeness and accuracy of information entered into the Pensions Administration contributor system.

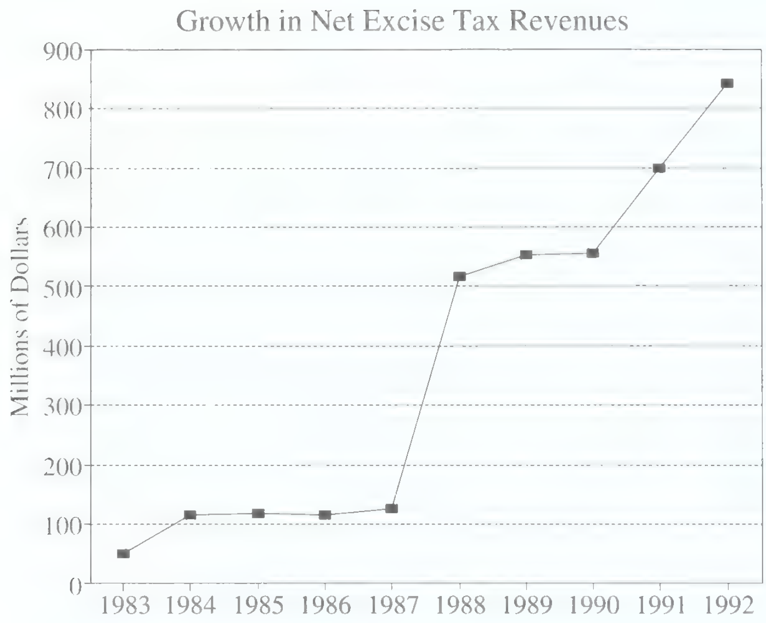
Unpaid excise taxes

There is a risk that unpaid taxes will not be collected by the Revenue Administration Division.

Alberta excise tax systems require the taxpayer to determine and report the tax due to the Province. Taxpayers file tax returns which show how taxes due are calculated. To gain assurance that information supplied is correct, the Division's staff examine these returns and may examine the records of taxpayers.

Excise taxes include various fuel and tobacco taxes, a hotel tax, and a pari-mutuel tax. For the year ended March 31, 1992, revenues from these sources were approximately $840 million, net of tax exemptions of approximately $140 million. In addition to these exemptions, the Division distributes $60 million in grants under the Alberta Farm Fuel Distribution Allowance program. The program reduces farm fuel costs by giving a fuel discount to farmers.

The number and amount of excise taxes, and the number of taxpayers have increased significantly over the last ten years. Net revenues increased from $50 million to $840 million. Exemptions plus the Alberta Farm Fuel Distribution Allowance increased from a negligible amount to approximately $200 million. The number of tax programs increased from 3 to 11. Tax returns increased from a few hundred to several thousand.



Although manpower resources for administering excise taxes have increased, it is not clear that they are at an appropriate level or appropriately deployed to deal with the risks that the Revenue Administration Division faces today. Resources were not sufficient to enable the Division to complete its planned activities and it was not always apparent why certain activities were undertaken to the exclusion of others.

As indicated above, the system relies on the taxpayer to report the taxes due. As a result, the Department does not know the amount of unreported taxes. What is required is an assessment of the unreported net taxes that could reasonably be collected.

In a management letter to the Deputy Provincial Treasurer, Finance and Revenue at the conclusion of the audit, I made the following recommendation:

Treasury Department - Unpaid excise taxes

Recommendation No. 13

It is recommended that the Treasury Department estimate the uncollected net excise tax revenues that can be recovered and develop a plan to optimize their recovery.

Alberta Heritage Savings Trust Fund
year ended March 31, 1992

Commentary on the Fund

Confusion exists regarding the Alberta Heritage Savings Trust Fund. The confusion is evident from comments made in the Legislature and the media about the purpose and future of the Heritage Fund. Because of these comments, I feel it would be helpful to provide an explanation of the relationship of the Heritage Fund with the other funds and agencies included in the consolidated financial statements. Additionally, I feel it would be helpful to examine the effect on the Heritage Fund of changing economic circumstances.

Changing economic circumstances

The Heritage Fund's stated objectives have not changed since its inception in 1976. However, economic conditions have changed significantly.

The Heritage Fund was funded by annual transfers of non-renewable resource revenue received by the Province. Times have changed and the Province is no longer able to save a portion of its non-renewable resource revenue. Also, all of the Heritage Fund's net income is now transferred to the General Revenue Fund.

In effect, the Heritage Fund currently functions as a subsidiary investment fund for the General Revenue Fund. It earns investment income that is transferred to the General Revenue Fund and lends funds to other Provincial entities thereby reducing the Province's borrowings.

What is needed, I believe, is an analysis of the costs and benefits of the Province maintaining both investments and debt, with the debt being larger. The investments are held by the Heritage Fund, and the debt is held by both the General Revenue Fund and the Capital Fund, and by Provincial agencies such as the Alberta Municipal Financing Corporation. In simple terms, the Province's financing arrangements are similar to an individual borrowing more than needed in order to maintain a savings account at another bank.

In a management letter to the Deputy Provincial Treasurers, I made the following recommendation:

> Alberta Heritage Savings Trust Fund - Changing economic circumstances
>
> **Recommendation No. 14**
>
> It is recommended that the Treasury Department initiate a review of the Alberta Heritage Savings Trust Fund to determine whether the Heritage Fund assets are being used in the most effective manner in relation to the Province's overall financial objectives.

I am providing the following commentary to enable the reader to better understand the relationship of the Provincial debt held by the General Revenue Fund, Capital Fund, and other Provincial agencies, to the Heritage Fund investments.

The nature and amount of the Provincial debt

The best information on the Provincial debt is found in the consolidated financial statements. The consolidated statements exclude all debt that is internal debt so as to show only amounts repayable by the Province to third parties. For example, internal debt owed by the Alberta Mortgage and Housing Corporation to the Heritage Fund is excluded because this is not a liability of the Province to a third party.

The Provincial unmatured debt at March 31, 1992, was $17,403 million as reported in the Province's consolidated balance sheet. This amount comprises the external borrowings of all Provincial funds and agencies, excluding commercial enterprises. Where assets exist in a sinking fund to retire debt, the debt is recorded net of such assets.

The following chart illustrates that the Heritage Fund is being used to finance $4,373 million of the debt requirements of Provincial entities, thereby reducing the Provincial unmatured debt to $17,403 million. Therefore, it is incorrect to assume that all of the assets of the Heritage Fund could be applied to reducing the external Provincial debt.

The Province's Internal and External Debt

	Gross Debt less Sinking Funds	Debt Held by the Heritage Fund	Debt Held by Other Gov't. Entities	External Debt as at March 1992*
		(Millions of Dollars)		
Debt issued by:				
General Revenue Fund	$10,667	$ 693	$242	$ 9,732
Alberta Capital Fund	1,441	-	-	1,441
Alberta Municipal Financing Corporation	4,712	140	121	4,451
Farm Credit Stability Fund	1,868	372	-	1,496
Small Business Term Assistance Fund	158	158	-	-
Alberta Provincial Corporation Loan Fund	198	-	-	198
Alberta Mortgage and Housing Corporation	1,937	1,807	23	107
Alberta Resources Railway Corporation	3	-	25	(22)
Alberta Agricultural Development Corporation	1,061	1,061	-	-
Alberta Opportunity Company	142	142	-	-
	$22,187	$4,373	$411	$17,403

* not including external debt of commercial enterprises which are consolidated on an equity basis.

The investment of $4,373 million in internal Provincial debt earned the Heritage Fund approximately $680 million for the year ended March 31, 1992. The remaining Heritage Fund income of $700 million was earned on external investments of $7,588 million.

The value of assets in the Heritage Fund

In order to assess the potential uses of the Heritage Fund, it is necessary to understand the market value and liquidity of the assets.

Market value is an estimate of the cash available from an orderly sale. All assets could not be sold immediately at these values.

The following chart shows the book and market value of the financial assets in the Heritage Fund as at March 31, 1992, as well as the relative liquidity of the assets.

Financial Assets in the Heritage Fund at March 31, 1992

	Assets at Book Value	Assets at Market Value
	(Millions of Dollars)	
External investments (highly liquid):		
Cash and marketable securities	$ 3,642	$ 3,665
Accrued interest and accounts receivable	665	665
Canada Investment Division	1,182	1,299
Alberta Investment Division		
- common shares	200	283
- corporate debentures	300	286
Commercial Investment Division	345	504
	6,334	6,702
External investments (less liquid):		
Corporate debentures - projects	315	315
Joint venture participation	739	739
Vencap equities	200	200
	1,254	1,254
Internal investments:		
Marketable securities	1,223	1,229
Provincial corporation debentures	3,150	3,397
	4,373	4,626
Due from the General Revenue Fund	78	78
	$12,039	$12,660

Market values have been obtained from page 25 of the 1991-92 Annual Report of the Heritage Fund.

Deemed assets are not included in the above chart. As stated in Note 2(b) to the Heritage financial statements, deemed assets are "amounts expended, not recoverable by the Heritage Fund." In my view, it is inappropriate to include deemed assets in any discussion of the value of the Heritage Fund. Consistent with this view, I have qualified my Auditor's Report with regard to the inclusion of Deemed Assets on the balance sheet of the Heritage Fund's financial statements.

Provincial Judges and Masters in Chambers Pension Fund

year ended March 31, 1992

Creation of a regulated fund without authority

The Provincial Judges and Masters in Chambers Pension Fund, established in 1988, continues to operate without legislative authority. During 1991-92 the Fund's assets increased to $41 million (1991 $31 million).

The Fund was created pursuant to the Provincial Judges and Masters in Chambers Pension Plan Regulation and two Treasury Board Directives. In my last annual report (page 18), I reported that I had received legal advice that the regulation and directives conflict with section 19(1) of the Financial Administration Act and section 126 of the Constitution Act, 1867 to the extent that they purport to create a fund separate from the General Revenue Fund.

The Fund could be made legal by express statutory authority from the Legislature or by a Treasury Board Directive under section 93 of the Financial Administration Act. This section allows the establishment of "benefit funds" but did not exist at the time the Fund was created.

The Treasury Department has indicated that it is considering obtaining express legislative authority for the Fund. However, proper legislative authority has not yet been obtained.

In a management letter to the Deputy Provincial Treasurer, Management and Control at the conclusion of the audit, I again made the following recommendation:

> Provincial Judges and Masters in Chambers Pension Fund
> - Creation of a regulated fund without authority
>
> **Recommendation No. 15**
>
> It is recommended that the Treasury Department seek express legislative authority for the Provincial Judges and Masters in Chambers Pension Fund.

Other regulated funds

In addition to the Provincial Judges and Masters in Chambers Pension Fund, I am concerned that many other regulated funds have been improperly created.

In my 1990-91 annual report (page 18), I reported my concern that many of the approximately 90 funds established under a Treasury Board Directive referred to as the "Public Money (Non-statutory) in Regulated Funds Directive," and its predecessors, were improperly created.

I also reported that the Government of Alberta Dental Plan Trust and the Government Employees' Group Extended Medical Benefits Plan Trust were invalidly constituted.

In response to my previous recommendations, the Treasury Department indicated that it was considering obtaining express legislative authority for all of these funds. However, legislative authority has not yet been obtained.

In a management letter to the Deputy Provincial Treasurer, Management and Control, it was again recommended that the Treasury Department obtain express legislative authority for the Government of Alberta Dental Plan Trust, the Government Employees' Group Extended Medical Benefits Plan Trust, and other unauthorized regulated funds.

Treasury Branches Deposits Fund
year ended March 31, 1992

In addition to the annual financial audit, the following work was completed:

- An examination of the processes used by management to acquire and develop computer systems.

- An examination of the systems used by the Office of the Chief Inspector to monitor the operational and credit functions of Alberta Treasury Branches.

Security valuation

Treasury Branches does not always obtain sufficient evidence to confirm the value of assets used as security for loans, before advancing additional funds.

Before a customer's loan is approved, a number of criteria are used to determine the amount that can be advanced. Among the most important of these is the value of the assets provided as security for the loan. Where an asset has changed hands recently, the purchase/sale price can be a useful indicator of its value. Where, however, the asset was purchased some time ago, its current value may be less certain. Loan officers often face uncertainties such as this when customers who already have loans apply for additional advances to be secured on an increase in the value of the assets already held as security.

Where there is uncertainty as to the value of an asset lodged as security, it is prudent and usual to obtain a professional appraisal, or to discount substantially the asset's claimed value. Treasury Branches, however, does not always do this. In one case, a $5 million estimated increase in the value of property was used to secure an additional advance without an appraisal being obtained.

Incorrectly valuing assets provided as security for loans can result in inadequately secured loans which, in the event of default by the borrower, can lead to losses.

In a management letter to the Treasury Branches Superintendent at the conclusion of the audit, it was recommended that appraisals be obtained when additional funds are being advanced which are secured by a revised value of property.

Treasury Branches has indicated that it will always obtain appraisals when customers are requesting additional funds which are secured by collateral that has substantially increased in value.

Systems development

Treasury Branches' processes for designing and developing computer systems have generally performed satisfactorily, but problems occurred when they operated for some time without a standardized development methodology.

In most large organizations, standards for developing computerized systems are usually codified in a systems development methodology. This helps to ensure that development projects are in line with the goals of the organization, and are completed within the time-frames set, and with the resources allocated. Treasury Branches had a recognized development methodology, but discontinued using it when certain aspects no longer suited its business requirements. While a new methodology was being designed, however, systems development continued without all the disciplines inherent in a formal development methodology.

One result of not having a complete methodology was that some systems were developed without adequate planning and testing. As a result, the systems produced by two major projects required significant upgrades relatively soon after they were implemented. The late completion of one of these projects resulted in the system being implemented without first resolving significant concerns relating to its integrity.

After computer systems are implemented, it is often useful to perform post-implementation reviews. Such reviews are usually called for by the organization's systems development methodology. At present, Treasury Branches product managers provide some of the information needed for effective post implementation reviews. They issue reports which explain any problems with implementation and with meeting budgets and deadlines. No reviews are performed, however, to determine whether the development costs and benefits provided by the system are consistent with those originally forecasted.

In a management letter to the Treasury Branches Superintendent at the conclusion of the audit, it was recommended that appropriate development standards be established and maintained to guide the development and implementation of automated systems.

The Automated Services Department has since developed a new methodology, which will be reviewed during future audits.

New computer system development costs

Treasury Branches' procedures for acquiring new computer systems and resources are operating satisfactorily, but better information is needed to decide whether systems should be purchased externally or developed in-house.

Before deciding whether to purchase a computer system or develop it in-house, the relative cost of each alternative is compared. Also taken into account is the current workload of the Automated Services Department and any backlog in that workload. However, estimates of the costs of developing systems in-house do not include the salary costs of systems development staff. This often results in the cost of developing systems in-house appearing considerably less expensive than external purchases. It has also resulted in more systems being developed in-house than the Automated Services Department could reasonably handle, and consequent delays.

To reach informed decisions on whether to purchase new computer systems externally or to develop them in-house, management must have complete cost information.

In a management letter to the Treasury Branches Superintendent at the conclusion of the audit, it was recommended that all related salary costs be included in project estimates.

Treasury Branches has since indicated that this recommendation will be implemented.

Connected loans and contingent liabilities

In my last three annual reports (1990-91 page 19), I recommended that Treasury Branches improve its system for recording and providing ready access to information on loans and commitments that share common collateral or earnings. I also recommended previously that Treasury Branches improve its system for recording, and providing credit personnel with faster access to information on loan guarantees and letters of credit.

Plans are now in hand to incorporate loan connections, letters of credit, and guarantees into Treasury Branches' computerized management information and accounting system. Progress will be monitored during future audits.

Other entities

Financial audits of the following were also completed:

Alberta Capital Fund - year ended March 31, 1992
Alberta Heritage Foundation for Medical Research Endowment Fund - year ended March 31, 1992
Alberta Heritage Scholarship Fund - year ended March 31, 1992
Alberta Municipal Financing Corporation - year ended December 31, 1991
Alberta Provincial Corporation Loan Fund - year ended March 31, 1992
Alberta Risk Management Fund - year ended March 31, 1992
Consolidated Cash Investment Trust Fund - year ended March 31, 1992
Credit Union Deposit Guarantee Corporation - year ended December 31, 1991
Farm Credit Stability Fund - year ended March 31, 1992
Land Purchase Fund - year ended March 31, 1992
Pension Fund - year ended March 31, 1992
S C Financial Ltd. - year ended December 31, 1991
S C Properties Ltd. - year ended March 31, 1992
Small Business Term Assistance Fund - year ended March 31, 1992
Treasury Revolving Fund - year ended March 31, 1992
Utility Companies Income Tax Rebates Fund - year ended March 31, 1992
391760 Alberta Ltd. - year ended March 31, 1992

Trust Funds

Trust funds under Provincial administration are not included in the Province's consolidated financial statements because the Province has no equity in them. At March 31, 1992, trust funds under administration amounted to $1,361 million. Summarized information of the funds making up this amount is provided in Note 7 to the consolidated financial statements.

Trust funds for which the Audit Office audits separate financial statements are reported on in section 2 of this report. The following trust funds were treated as a group of similar entities and sufficient audit work was performed on the group to support its inclusion in Note 7 to the consolidated financial statements at March 31, 1992:

ADVANCED EDUCATION:

Advanced Education Endowment Funds
John Joseph Collett Memorial Scholarship Fund
E.R. Pendleton Estate Trust

AGRICULTURE:

Claude Gallinger Memorial Trust
Disputed Livestock Sales Proceeds Trust Fund
National Tripartite Price Stabilization Program Trust Account
Wheat Board Money Trust
4-H Scholarships Trust Fund

ATTORNEY GENERAL:

Land Titles Offices Trust
Maintenance Enforcement Trust
Various Courts and Sheriffs' Offices Trust
Public Trustee - Estates and Beneficiaries Trust Accounts
Personal Property Security Assurance Fund Trust
Solicitors' Trust Account

CONSUMER AND CORPORATE AFFAIRS:

Collection Practices Act Trust
Debtors Assistance Trust
Insurance Companies Trust
Orderly Payment of Debts
Securities Act Trust

CULTURE AND MULTICULTURALISM:

Fort Dunvegan Historical Society Trust Fund
Gakken Dinosaur Exhibit Trust Fund
C.O. Nickle Trust Fund
Turner Valley Gas Plant Trust Fund

EDUCATION:

Federal French Language Grants Fund
Mildred Rowe Weston Estate Trust
School for the Deaf Donations

ENVIRONMENT:

Surface Reclamation Fund

FAMILY AND SOCIAL SERVICES:

Various Institutions Trust Accounts

FORESTRY, LANDS AND WILDLIFE:

Junior Forest Warden Program Fund

HEALTH:

Various Institutions Trust Accounts

PUBLIC WORKS, SUPPLY AND SERVICES:

Hospital and Nursing Homes Construction Accounts
Security Deposits Trust Fund

RECREATION AND PARKS:

Interprovincial Games Trust Fund
Western Canada Games Trust Fund

SOLICITOR GENERAL:

Correctional Institutions Trust Accounts
Impaired Driving Initiatives Trust Fund

TREASURY:

Bond and Coupon Accounts:
  Matured Interest
  Unpresented Debentures
General Trust Account
Federal Goods and Services Tax Trust
A.L. Sifton Estate
Ultimate Heir Trust Fund "A"
Ultimate Heir Trust Fund "B"

Department of Advanced Education
year ended March 31, 1992

In addition to the annual financial audit, the following work was completed:

- An examination of systems used by the Department to review and approve post-secondary institution budget submissions and other financial information.

- An examination of the systems used by Alberta Vocational Colleges in Edmonton, Calgary, Lac La Biche and Lesser Slave Lake to control and record capital assets and expenditures on cost recovery programs, and to prepare and monitor the annual operating budget.

Budget submissions and other financial information

Financial information submitted to the Department by colleges and technical institutes is not presented in a consistent or comparable format.

In 1990, the Department issued guidelines and forms for budget submissions to facilitate consistency in the information submitted, and to ensure greater comparability from year to year. The budget approval forms were also intended to allow the Department to aggregate financial information for the post-secondary system. This aggregation would assist in identifying general trends in revenue and expenditure. The guidelines stress that budget information should be comparable to the audited annual financial statements of the institution.

Some institutions continue to submit budget information that is not consistent with the audited annual financial statements, thereby requiring the Department to expend resources in time-consuming reconciliations and follow-up. In addition, the institutions do not all present financial information in a consistent manner. This hinders the Department's ability to make meaningful comparisons of financial and operating results across the post-secondary system.

The Department also expects to be notified when a significant change from the budget approved by the Minister is anticipated. In some instances, the Department was not informed of significant changes from budgeted results until audited annual financial statements were issued.

In a management letter to the Deputy Minister it was recommended that the Department require post-secondary institutions to provide budget submissions and annual financial statements that are comparable.

I acknowledge that the Department has joined in a project, initiated by the public college and technical institute senior business officers, to improve comparability of financial information through standardization.

Accounting principles for post-secondary education institutions

In my 1990-91 report (page 24), I commented that most of the Province's post-secondary institutions did not record in their financial statements the liability for staff vacation entitlements. I recommended that the Department encourage the institutions to accrue the liability for vacation earned, but not yet taken.

The Department's response to this recommendation indicated a preference to delay any changes until an accounting guide used by many universities and colleges is updated. This accounting guide is a useful source of information about the format and presentation of financial information, but does not replace the requirements of generally accepted accounting principles.

Generally accepted accounting principles encompass full accrual accounting, including the recognition of liabilities for vacation entitlement earned but not yet taken, and for other liabilities such as early retirement incentive plans.

At the end of the 1992 reporting year, the total of such liabilities at Alberta post-secondary institutions exceeded $85.5 million. The University of Alberta and Athabasca University have appropriately recorded approximately $37.7 million of this total in their financial statements. The remaining $47.8 million, including $33.1 million in vacation pay liability, was not recorded. Most institutions acknowledge the unrecorded liability in the notes to their financial statements. However, such note disclosure is not an acceptable substitute for proper accrual accounting.

In a management letter to the Deputy Minister, I made the following recommendation:

> Department of Advanced Education - Accounting principles for post-secondary institutions
>
> **Recommendation No. 16**
>
> It is recommended that the Department of Advanced Education encourage post-secondary institutions to accrue vacation pay and other staff benefits in their annual financial statements.

Salary restraint

The Department of Advanced Education did not provide appropriate guidance to post-secondary institutions regarding the government's salary restraint policies.

In November of 1991, the government announced a broad program of expenditure control, highlighted by freezes on management salaries and hiring. The background material to the announcement stated that the salary freeze did not extend to employees of Provincially-funded institutions, such as those in the post-secondary education sector. However, the government expressed the expectation that the institutions' autonomous boards would adopt similar restraints. In this fashion, restraint could be exercised over all expenditure of public funds.

The Minister of Advanced Education, in his grant letters to the institutions, also expressed his expectation that appropriate action would be taken to control increases in salary costs, following the government's leadership.

A few institutions responded to the Minister indicating their support for the restraint program, and identifying specific actions taken. These institutions also recommended that further guidance be given, and that it would be valuable for the Department to assess how other Alberta post-secondary institutions responded to the restraint initiative.

The Department did not specifically monitor the extent of management salary increases awarded by the institutions. The Department's regular review of salary increases for all staff indicated that the average, by individual institution for 1992-93, ranged from 3.6% to 6.5%.

In a management letter to the Deputy Minister it was recommended that in future the Department provide guidance to the post-secondary educational institutions regarding government policies that affect them.

Alberta Vocational Colleges

Cost recovery programs

Systems to record expenditures on cost recovery programs are deficient.

Alberta Vocational Colleges in Edmonton, Calgary, Lac La Biche and Lesser Slave Lake derive significant amounts of revenue through recovery of costs incurred in supplying services. In the year ended March 31, 1992 the total of such revenue was approximately $3.7 million. It is important for the Colleges to have proper procedures to ensure that these costs are, in fact, recovered through

billings, on a timely basis. The Colleges' existing accounting systems do not accumulate these costs in a manner which will enable recovery in a timely fashion.

Costs are allocated to programs on an arbitrary basis, with inadequate documentation retained to support the allocations. This has led to a high volume of adjustments, recording errors and delays in the issue of billings for cost recovery.

In a management letter to the Deputy Minister at the conclusion of the examination, it was recommended that the Department and the Colleges develop procedures to ensure the complete recording and timely collection of revenue.

Capital Assets

The systems for recording and verifying capital assets at some vocational colleges are deficient.

The maintenance of accurate capital asset accounting records is fundamental to effective management control. The total of capital assets administered by the vocational colleges could not be readily determined from their records, however a value in excess of $36 million has been established for insurance purposes. These assets should be verified by annual physical counts, and by reconciliation of the counts to the accounting records.

Some capital asset records did not include information on asset location and identification, while other capital asset records had not been updated to remove the cost of asset disposals. In addition, surplus assets were not identified and disposed of on a timely basis. Lack of adequate capital asset recording systems and verification procedures weakens management control over these assets.

In a management letter to the Deputy Minister at the conclusion of the examination, it was recommended that the Alberta Vocational Colleges improve procedures for good management control of capital assets.

The Department agreed with the recommendations and indicated that the deficiencies in the systems for recording and verifying capital assets at the vocational colleges will be rectified. Improvements will be examined during future audits.

Other entity

A financial audit of the **Students Loan Fund** was also completed for the year ended March 31, 1992.

UNIVERSITIES, RELATED ENTITIES AND THE BANFF CENTRE

The Provincially-owned universities, related entities and the Banff Centre operate under the authority of the Universities Act and the Banff Centre Act respectively. The financial statements of these Provincial agencies are not published in the Public Accounts, nor are they included in the Province's consolidated financial statements. The Minister of Advanced Education, who administers the aforementioned Acts, tables the audited financial statements of these agencies each year in the Legislative Assembly.

Athabasca University
year ended March 31, 1992

In addition to the annual financial audit, my staff examined the University's performance measurement and reporting system.

Performance measurement and reporting

The University's management reporting system does not provide sufficient and appropriate information to enable the Governing Council to assess the University's achievements.

Management provides a variety of information to the Governing Council to enable it to measure the University's performance and use of resources against the University's strategic plans. The information includes enrolment, graduation and program statistics, and financial results. This information could be improved by including pertinent statistical, costing and other information to assess the extent to which the University's objectives have been achieved, and how efficiently the resources have been used. Information such as program cost per student, cost of course materials per program, and comparisons with expectations, could highlight trends where efficiencies can be achieved.

The University's reporting system has evolved over time. I believe it would be appropriate for the Governing Council to clarify its information needs. This would facilitate effective communication of the Council's expectations throughout the University. It would also aid in a smooth transition when management or Council members change.

In a management letter to the President it was recommended that the University improve performance measurement and reporting to enable the Governing Council to assess the University's achievements.

The University of Alberta
year ended March 31, 1992

In addition to the annual financial audit, financial audits of the following related companies were completed for the year ended March 31, 1992:

Alberta Microelectronic Centre
Telecommunications Research Laboratories
The Laser Institute

The University of Calgary
year ended March 31, 1992

In addition to the annual financial audit, financial audits of the following related companies were also completed :

ACTC Technologies Inc. - year ended December 31, 1991
The Arctic Institute of North America
- year ended March 31, 1992
University Technologies International Inc.
- year ended March 31, 1992

Other entities

Financial audits of the following were also completed for the year ended March 31, 1992:

The Banff Centre for Continuing Education
The University of Lethbridge

PUBLIC COLLEGES AND TECHNICAL INSTITUTES

The Provincially-owned public colleges and technical institutes operate under the authority of the Colleges Act and the Technical Institutes Act respectively. Although these post-secondary institutions are Provincial agencies, their financial statements are not published in the Public Accounts, nor are they included in the Province's consolidated financial statements. The Minister of Advanced Education, who administers the aforementioned Acts, tables the audited financial statements of these institutions each year in the Legislative Assembly.

Capital assets

Every year since the first Auditor General's Annual Report was issued, deficiencies in the control and accounting for capital assets at post-secondary institutions have been reported.

Post-secondary institutions collectively administer capital assets valued at many millions of dollars, so controls in this area are important. This year, some institutions have resolved the reported deficiencies, some institutions have encountered new problems, and some institutions have failed to address my concerns.

The following concerns arose from audits of public colleges and technical institutes for the year ended June 30, 1992:

Fairview College

Fairview College's capital asset records are deficient.

The College's financial statements record furniture and equipment valued at $8.9 million at June 30, 1992. Accounting and physical controls over these assets have improved during the past two years. However, audit tests continue to disclose assets lacking identification tags, asset disposals not removed promptly from the records, and assets not found at locations shown in the capital asset records. In addition, over 3,100 assets are inaccurately recorded at amounts below original cost.

Grande Prairie Regional College

Grande Prairie Regional College has an inadequate system for the accounting and control of capital assets.

The College's system does not allow for removal of capital assets which have been disposed of, although the value recorded in the system can be set to zero.

A number of the College's capital assets appeared to be obsolete, damaged or surplus to current needs. College management agreed to write off approximately $463,000 representing the recorded cost of obsolete computer equipment.

Olds College

Olds College does not have adequate control over the identification and recording of disposed and obsolete capital assets.

This problem has persisted for several years. In 1989, an audit adjustment of approximately $2 million was required to correct an estimated overstatement of the value of capital assets. Audit tests continue to indicate that disposed and obsolete assets are still included in the capital asset records.

Red Deer College

Red Deer College does not maintain appropriate control of capital assets.

The College's asset records were not accurately updated for asset disposals and transfers between various departments and locations.

Northern Alberta Institute of Technology

Northern Alberta Institute of Technology has deficient procedures for accounting for capital assets.

Capital asset records were not appropriately updated when the locations of assets were permanently changed, and procedures did not facilitate prompt recording of asset disposals and identification and recording of unused or obsolete assets.

In each of the above instances, a management letter was issued to the institution recommending appropriate corrective action.

Alberta College of Art
year ended June 30, 1992

In addition to the annual financial audit, my staff completed an examination of the systems used by the College to prepare the operating budget, and to provide interim financial reporting.

Budget systems

The College's financial reporting process did not provide the Board of Governors with the information necessary to appropriately monitor operating results.

The College's financial reports did not identify variances between actual results and the budgeted amounts, or show the prior year's comparative amounts. Without such information, it is difficult for the Board to determine the nature and impact of matters affecting operations.

In a management letter to the President at the conclusion of the examination, it was recommended that interim financial reports to the Board include details and explanations of variances from the original budget, and from the prior year's actual results.

The President responded that the College will implement the recommended improvements for reports to the Board of Governors.

Investments

The College lost a significant amount of money because of inadequate management of investments.

In May and June of 1991, the College purchased discount notes of Olympia & York Exchange Tower Ltd., face value $388,000, with a maturity date in March 1992. The investments were unsecured, in contravention of College policy, and their purchase was not reviewed and approved by senior management. College management did not report the nature of the investments to the Board of Governors, and there was no ongoing review of market values subsequent to the audit for the year ended June 30, 1991.

By March 1992, Olympia & York was in financial difficulty, and the discount notes were not redeemed. At the conclusion of the 1992 audit there was no market for the investments and the College Board decided to write off the total cost of $361,679.

In 1990, after repeated recommendations by this Office, the Colleges Act was amended to allow public colleges to participate in the Consolidated Cash Investment Trust Fund. This Fund is administered by Alberta Treasury to provide secure investment opportunities. Had the Alberta College of Art used the Fund's services, the significant monetary loss would not have occurred.

In a management letter to the Chairman of the Board of Governors at the conclusion of the audit, I made the following recommendation:

Alberta College of Art - Investments

Recommendation No. 17

It is recommended that the Alberta College of Art improve its management of investments.

The Chairman responded that the Board has investigated the circumstances regarding the Olympia & York investments. Improvements to the review and approval process have been implemented, and the Board will review the College's investment policy to further strengthen controls.

Expense claims

College credit cards were used to pay for personal expenses. Documentation supporting expense claims did not always indicate how the expenses related to College business.

Credit cards obtained by the College for use by its senior personnel for College-related expenses were sometimes used for personal expenses. Such practices can result in incorrect allocations of expenses, and have also resulted in unauthorized employee loans.

Hospitality expenses for senior staff of the College during the year totalled approximately $37,000.

Senior staff did not use the College's standard claim forms which require approval by the next supervising level for reimbursement of expenses. In addition, credit card receipts for hospitality expenses usually did not indicate the purpose of the expense, who was entertained, and how the expense related to College business. This is an unsound practice, and not in compliance with the College's policy.

In a management letter to the Chairman of the Board of Governors at the conclusion of the audit, I made the following recommendation:

Alberta College of Art - Expense claims

Recommendation No. 18

It is recommended that the Alberta College of Art improve the documentation and approval procedures for expense claims, and restrict the use of College credit cards.

Loans to employees

Loans to College employees are not approved in advance, as required by Board policy.

In response to my recommendation following the 1991 audit, the Board developed a policy which limits employee loans to amounts specifically related to College business. During the year ended June 30, 1992, approximately $14,700 of additional loan amounts resulted from payroll advances and the charging of personal

expenses to College credit cards. These types of loans are not approved in advance, and do not comply with the Board's policy.

In a management letter to Chairman of the Board of Governors at the conclusion of the audit, it was recommended that the College not provide loans to employees without the prior approval of the Board of Governors.

Fairview College
Grande Prairie Regional College
year ended June 30, 1992

In addition to the annual financial audits, my staff also examined the systems used by the Colleges to manage their programs and courses in response to identified educational needs.

Management of programs and courses

The Colleges lack information concerning the relevance of their programs and courses.

With existing information, the Colleges can assess the performance of individual students while they are attending specific courses. However, additional information is required for the Colleges to measure overall success in retaining students through all the courses of their chosen programs. The Colleges need information to determine whether the programs offered are up to date and whether the skills acquired at the Colleges have helped students' career success. They also need to evaluate whether program delivery methods are efficient and effective.

Local advisory committees have been established to provide liaison with the community and local business. These committees can advise the Colleges on the educational needs of the region. The Colleges could make more effective use of these committees and other sources of information to measure whether they successfully meet the identified needs.

In management letters to the Chairman of the Board of Governors of Grande Prairie Regional College, and the President of Fairview College at the conclusion of the examinations, I made the following recommendation:

Grande Prairie Regional College
Fairview College

- Management of programs and courses

Recommendation No. 19

It is recommended that Grande Prairie Regional College and Fairview College improve existing systems by obtaining and analyzing information to measure the success and relevance of programs and courses.

Grant MacEwan Community College
year ended June 30, 1992

In addition to the annual financial audit, my staff completed an examination of the systems used to record and report on the operating costs of the College's community education programs.

Community Education Programs

Program cost information provided to the Board of Governors is incomplete. Furthermore, the expectations for Community Education Programs are not clearly defined.

Within the College's accounting system, Community Education programs are allocated direct costs, plus a component for overhead costs. However, support for the overhead component is inadequate, and there was no evidence of an ongoing review of the overhead rate. Without this information, the Board of Governors is unable to determine whether costs are fully recovered, or to what extent Community Education programs may be subsidized by regular College operations.

To ensure that information provided meets the needs of the Board, and facilitates informed decision making, program objectives and information requirements should be defined by the Board in consultation with management. Systems can then be developed to provide the necessary information.

In a management letter to the President at the conclusion of the examination, it was recommended that the information needs and expectations of the Board of Governors for Community Education programs be clearly defined and communicated to management.

The College has indicated that special analyses for 1991-92 and 1992-93 will be undertaken to provide more information to management and the Board, and to enable the definition of ongoing information and reporting requirements.

Keyano College
year ended June 30, 1992

Management of bank accounts

The College's management of its bank accounts was deficient.

The College operates a number of bank accounts. The account for the College's theatre operations, with a balance of $37,600 at June 30, 1992, had been dormant for almost a year. Persons authorized to use the account were no longer employed by the College, and new signatories had not been established. As a result, the College was not able to effectively manage these funds, thereby foregoing an opportunity to earn interest on this amount. In fact, the College had to pay service charges to maintain the dormant account.

In a management letter to the President at the conclusion of the audit, it was recommended that the College manage the theatre bank account to maximize interest earnings.

Lakeland College
year ended June 30, 1992

In addition to the annual financial audit, my staff completed an examination of the systems used by the College to monitor and report on the control and use of facilities and equipment.

Capital asset utilization

Information provided to management and the Board of Governors to support capital resource decisions is not complete.

The system to monitor and control the use of computer equipment is well established, and the formal reports of computer equipment use have proven useful in supporting decisions on the timing and extent of additional computer acquisitions. By contrast, the process in place to forecast classroom space requirements and track usage is informal. Usage is tracked based on hours of occupancy, and information is not provided to senior management on whether classroom space is under utilized, or if additional space is required. Also, equipment use is not monitored separately from classroom space.

In a management letter to the President at the conclusion of the examination, it was recommended that the College prepare utilization reports, for use by those responsible for capital asset maintenance and replacement.

Lethbridge Community College
year ended June 30, 1992

Reservation of opinion

My 1990-91 annual report (page 30), explained the reasons for the reservation of opinion in the Auditor's Report on the combined financial statements of the College for the year ended June 30, 1991. The condition that gave rise to this reservation of opinion has a continuing effect, with the result that the Auditor's Report on the combined financial statements of the College for the year ended June 30, 1992 also contained a reservation of opinion.

The College operates under the accrual basis of accounting, which should recognize the effect of transactions and events in the period in which they occur. The College's decision to implement a program to reduce staff levels occurred in the year ended June 30, 1991 and a liability in the amount of $228,585 arose at that time. As the retiring employees rendered no significant service during the year ended June 30, 1992, it is not appropriate to record the charge of $172,681 to the operating fund in that year with the remaining amount being recorded in subsequent years. Had the $228,585 been recorded in the June 30, 1991 financial statements, the excess of revenue over expenditure for the year ended June 30, 1992, would have been $172,681 greater and the operating fund balance at June 30, 1992, would have been $55,904 less.

The annual financial statements should present fairly the financial position and results of operations of the College. Failure to recognize the costs of the early retirement incentive plan in the proper year is not appropriate and is not in accordance with the accrual basis of accounting.

Medicine Hat College
year ended June 30, 1992

Budget submissions to the Department of Advanced Education

In my 1990-91 report (page 31), I recommended that Medicine Hat College comply with the guidelines for submitting operating budgets to the Department of Advanced Education. The Department requires information to allow comparison of the operating budget and the audited annual financial statements. The guidelines stress that revenues from all sources should be included in the budget. For several years, budgets submitted to the Department differed significantly from the College's internal operating budgets and

audited annual financial statements. Substantial amounts of investment income revenue from reserve accounts was not included in the budgets submitted.

College management is proposing changes to budget preparation procedures. Once approved by the Board of Governors, these new procedures will facilitate compliance with the Advanced Education guidelines by ensuring inclusion of all expenditures and revenues from all sources. The budget submitted to the Department will also be used for internal operating purposes. The proposed new procedures will be reviewed during future audits.

Mount Royal College
year ended June 30, 1992

In addition to the annual financial audit, my staff completed an examination of the systems used by the College to manage the efficient use of facilities and equipment and to determine future capital asset needs.

Financial information provided to the Board of Governors

In my 1990-91 report (page 33), I recommended that Mount Royal College improve its budget and interim financial reporting systems to provide for submission of complete and consistent information to the Board of Governors. Specifically, budgets submitted to the Board did not clearly indicate the expected surplus or deficit, variances between budget and actual results were not explained, and budget errors remained undetected. In addition, accounting procedures used for interim financial reporting were not consistent with those used for the audited annual financial statements, thereby leading to distorted interim reports.

The College has responded to my recommendation. The Board of Governors and management have consulted extensively over the past year and have developed a format for complete and consistent financial information to be presented for review.

Capital asset management

Information provided to management and the Board to support capital resource decisions is not complete.

The College maintains a classroom/seat summary based on a study conducted in 1990. The College is also in the early stages of establishing a database for classroom scheduling. This system could be expanded to provide a complete inventory of buildings and rooms, including laboratories and other instructional and non-instructional space. The system could then provide regular utilization information. Complete information on existing space would provide a means to determine the efficiency of space

utilization and assist in planning for future needs. Priorities and strategies for facilities usage and maintenance could be included in a plan for the management of assets. The College already has a long-term maintenance plan for student residences, which could be made more useful by documenting planned and completed maintenance procedures.

In a management letter to the President it was recommended that the College develop comprehensive space utilization information for planning the most efficient use of existing instructional and other space. It is also recommended that the College prepare a plan for capital asset utilization and maintenance.

The College has agreed with the recommendation concerning space utilization and has taken steps to develop more comprehensive information. The College also agreed with the concept of a plan for capital asset utilization and maintenance, but qualified its support on the basis that additional funding might be required.

Olds College
year ended June 30, 1992

In addition to the annual financial audit, my staff completed an examination of the costing systems used by the College to support management decisions.

Costing systems

The costing systems used by the College do not provide the information necessary to make informed decisions.

The College's departments, cost centres and cost recovery projects are not charged for all of the costs of their operations. Only direct costs are allocated, and thus management does not have sufficient information to support decisions relating to the contribution or subsidization of cost recovery projects and ancillary services. For example, Olds College has several operations, including student residence and food services, bookstore and the College farm, normally accounted for as ancillary services. These operations generate annual revenues of about $3.5 million, and are expected to operate on a break-even basis. Some of these cost centres combine aspects of both ancillary and instructional operations. Inadequate costing information means that management cannot determine the extent to which ancillary services and cost recovery projects are contributing to, or being subsidized by, the College's instructional operations.

Because the College's systems do not provide the necessary costing information, some departments and cost centres have established

their own information systems. This practice is not efficient, and can result in information not being comparable with other departments and cost centres.

In a management letter to the President at the conclusion of the audit, I made the following recommendation:

> Olds College - Costing systems
>
> **Recommendation No. 20**
>
> It is recommended that Olds College allocate indirect costs and provide revenue detail in the costing system to provide more information to support management decisions.

Southern Alberta Institute of Technology
year ended June 30, 1992

Donations

The procedures used by the Institute to control and account for donations are deficient.

The Institute receives a substantial amount of donation and contribution revenue annually - nearly $2.7 million in donations and contributions was received during the year ended June 30, 1992.

There are significant delays in issuing tax deduction receipts for donations received, and in situations where a tax receipt is not required by the donor, the donation is not recorded. Reconciliations between donation tax receipts issued and donation revenue are not prepared on a timely basis. In addition, tax receipts are issued for donated capital assets before determining if the asset will be used by the Institute.

In a management letter to the President it was recommended that the Institute improve procedures for controlling and recording donations.

The Institute now has the ability to integrate the donation receipt system with the general ledger, and does not anticipate any future discrepancy between donation revenue and tax receipts issued.

Other entities

Financial audits of the following were also completed for the year ended June 30, 1992:

Northern Alberta Institute of Technology
Red Deer College

Department of Agriculture
year ended March 31, 1992

In addition to the annual financial audit, my staff completed an examination of the systems used to administer the tripartite programs that are offered to the Province's agricultural producers.

The Province is involved in delivering a number of tripartite income-stabilization programs that operate under federal/provincial agreements. The programs are called tripartite because three parties are involved, namely, the agricultural producers and the federal and provincial governments. Under the programs, the three parties contribute annually into funds from which the producers' claims are paid. Each program fund is intended to be self-sustaining, that is, over time the contributions paid into the fund should equal the claims paid.

The commodity-specific programs are administered through Alberta Agriculture. The Province collects the producers' contributions and forwards them, together with the Province's contributions, to the federal government. The federal government holds the fund for each program, from which it pays producers' claims.

Two other programs are administered by the Alberta Hail and Crop Insurance Corporation. One is the Gross Revenue Insurance Plan program, which began in 1991-92, and the other is the crop insurance program. For these two programs, the Corporation collects the contributions from all three parties, holds the funds, and pays the producers' claims.

Gross Revenue Insurance Plan program

There appears to be uncertainty about primary responsibility for representing the Province during the development of administrative policies and operating procedures to complement the federal/provincial agreement under which the Gross Revenue Insurance Plan program operates.

The commodity-specific programs and the crop insurance program are mature programs. Over the years, regulations, policy manuals and authoritative guidelines have been developed to compensate for any imprecise wording and interpretational issues in the governing agreements. This practice has helped to ensure that the programs are delivered consistently, yet are flexible enough to deal with the many complex issues and the varying conditions of the marketplace.

The Gross Revenue Insurance Plan program is a new program. Wording imprecisions and interpretational issues arising out of the federal/provincial agreement under which it operates are still being resolved. Some of the problems being experienced are outlined in

the section of this report dealing with the audit of the Alberta Hail and Crop Insurance Corporation.

It is important to resolve quickly any uncertainties in the administrative policies and operating procedures of this program which, in its first year alone, cost the Province and the federal government more than $250 million. The National Committee established under the agreement to resolve these issues appears to have made little progress in this regard.

The Corporation expected policy guidance from the National Committee or through Alberta Agriculture which is represented on that Committee. Departmental officials, however, believe that administrative policies and operating procedures are the responsibility of the Corporation's Board. Hence my concern as to who has primary responsibility for representing the Province's interests during the evolution of the program, and the documentary guidance needed to ensure consistency of program delivery.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

> Department of Agriculture - Gross Revenue Insurance Plan program
>
> **Recommendation No. 21**
>
> It is recommended that the Department of Agriculture resolve any uncertainties regarding its responsibility for representing Alberta's interests during the evolution of operating and administrative policies for the Gross Revenue Insurance Plan program.

Tripartite fund balances - contingent liabilities

The Province's General Revenue Fund financial statements do not reflect the contingent liabilities associated with the operation of the national tripartite programs.

Significant amounts of money flow through the tripartite program funds held by the federal government and the Alberta Hail and Crop Insurance Corporation. Although these programs are supposed to be self-sustaining, production cycles and other factors result in the funds being, from time to time, in surplus or deficit positions.

At December 31, 1991, six of the eight commodity-specific program funds held by the federal government were in deficit, the largest being the slaughter cattle program fund and the hog program fund which had deficits of $36 million and $24 million respectively.

Similarly, at March 31, 1992 the Gross Revenue Insurance Plan fund held by the Alberta Hail and Crop Insurance Corporation was reporting a deficit of $131 million.

The agreements under which tripartite programs operate are for fixed terms. In the event that an agreement is not renewed, the federal and provincial governments have agreed to share, in various ratios, any residual deficits. For example, the Province is responsible for 35% of any residual deficit on the Gross Revenue Insurance Plan fund. Accordingly, the Province's share of these deficits is a contingent liability which should be reported in the financial statements of the General Revenue Fund.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department provide the Treasury Department, at each year end, with the information about tripartite fund balances and deficits needed to report contingent liabilities in the financial statements of the General Revenue Fund.

Tripartite fund balances - liabilities

Parts of the deficits of some tripartite funds may be, or may shortly become, liabilities of the General Revenue Fund.

Events can occur to change parts of the Province's share of tripartite fund deficits from contingent liabilities into actual liabilities. This could happen, for example, if there was reason to believe that a tripartite agreement would not be renewed, or that a program would be scaled-down. This has been unlikely in the past, but international efforts to reduce agricultural support programs could result in program changes of this nature.

Actual liabilities might also arise if, for any reason, the Province paid claims that the federal government did not agree were within the program's scope. If the federal government reduced its contribution, the fund's ability to be self-sustaining could be impaired. This could also result in the federal government refusing to share any residual deficit in the agreed ratio.

Any impairment of a fund's ability to be self-sustaining would give rise to an actual liability of the General Revenue Fund. This is why the deficits of the funds are cause for concern. Some of the current deficits may be the result of product cycles not being synchronized with the programs, but this is difficult to assess.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department define the periods of time over which the agricultural tripartite programs are intended to be self-sustaining or actuarially sound. The current cost of the Province's portion of any liability of a program that is not

self-sustaining or actuarially sound should be reported to the Treasury Department, and recorded as a liability of the General Revenue Fund.

Setting criteria and measuring program results

Without well defined and measurable program objectives and parameters, it is difficult to establish whether the tripartite programs are operating as intended or are achieving their planned objectives.

The main objective of most tripartite programs is income stability. The agreements under which the programs operate, however, do not define income stability in measurable terms. This makes it difficult for program managers to determine whether the programs are achieving their intended objectives, or to prepare meaningful accountability reports on the programs' effects.

The agreements and program literature also identify a number of criteria and risks that the programs must satisfy or avoid. For example, the programs should not result in farmers changing their crop rotation, fertilization or other farming practices solely to take advantage of the programs. Here again, it is not always clear exactly what these and other criteria and risks mean in terms that can be measured. Hence it is difficult for program managers to demonstrate that program benefits are being delivered within program parameters, or to compare intended results with actual performance.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department encourage better program management and reporting by defining tripartite program objectives more precisely, and by clarifying the meanings of program parameters.

Alberta Agricultural Development Corporation
year ended March 31, 1992

Interest accrued on non-performing loans

The Corporation reports interest accrued on non-performing loans in a way that does not comply with generally accepted accounting principles.

Generally accepted accounting principles require that revenue should not be recorded in financial statements unless, at the time the revenue was billed or accrued, ultimate collection was reasonably assured. This means that interest should not be accrued on non-performing loans or loans whose collectibility is otherwise doubtful.

Normally, lending institutions maintain a record of accrued interest on non-performing loans, so that the interest can be reinstated if the collectibility of the loans improves.

In its accounting records, the Corporation accrues interest receivable on all loans. However, interest income recognized on non-performing loans is offset by a corresponding increase in the provision for doubtful accounts, with the result that the Corporation's income and deficit are fairly stated in the annual financial statements. This reporting practice has been adopted because, at present, the variety and complexity of the Corporation's programs preclude, with existing resources, the removal from interest income of the interest that has been recognized on these loans.

In a management letter to the Corporation's President at the conclusion of the audit it was recommended that when the Corporation next replaces its computer-based loan accounting system, it build in the capacity to generate the information needed to account for interest accrued on non-performing loans in accordance with generally accepted accounting principles.

Alberta Agricultural Research Institute
year ended March 31, 1992

In addition to the annual financial audit, my staff completed an examination of the systems used to promote agricultural research and to use the resulting knowledge to benefit the agri-food business.

Alberta Hail and Crop Insurance Corporation
year ended March 31, 1992

In addition to the annual financial audit, my staff completed audits of the Province's 1991-92 cost-sharing claims under the Canada-Alberta Crop Insurance Agreement.

In 1991, the Corporation introduced the Gross Revenue Insurance Plan program, funded jointly by the Province, the Government of Canada and the farmers who register for benefits under the program. The new program more than doubled the revenues and expenditures of the Corporation, and placed considerable strain on the Corporation's staff resources and administrative systems.

Compliance with Gross Revenue Insurance Plan contract

Some of the benefits paid to farmers under the Gross Revenue Insurance Plan program were in excess of those prescribed in the insurance contracts entered into with the farmers.

As required by the federal/provincial cost-sharing agreement, the Corporation developed a standard insurance contract for the program. It contains the eligibility criteria that farmers must satisfy to obtain coverage and the basis for paying claims.

The excess benefits paid resulted mainly from the method used to calculate acres eligible for coverage. For example, the 1991 insurance contract limits the eligible acreage to the farmer's actual seeded acreage of qualifying crops during 1990 plus 10% or the average of the past three years seeded acreage of qualifying crops plus 10%, whichever is greater. The Corporation, however, often allowed farmers to insure more acres than were allowed by either of these methods. In some of these cases, there is documentation in the Corporation's files which casts doubt on the reasons given for allowing an alternative basis.

It is acknowledged that applying the contract's eligibility criteria strictly could disadvantage some farmers, particularly where the previous three years were affected by long-term rotational planting or severe weather conditions such as flooding. But not all of the alternative methods of calculating eligible acres related to these situations. A simple extrapolation of the deviations from contract terms suggests that approximately $11 million in additional benefits was paid to farmers.

The Corporation's management believes that the deviations it has allowed from the terms of the insurance contract are within the spirit of the Gross Revenue Insurance Plan Agreement with the Government of Canada. Over time, this assessment may prove to be correct. Meanwhile, however, uncertainty remains. The Agreement with the Government of Canada is imprecise in many respects. The National Committee established under the Agreement to provide guidance on matters of interpretation and to compensate for the lack of precision has done little in this regard.

Pending resolution of these uncertainties, there is concern that the Corporation may be paying benefits that are beyond the scope of the Agreement. If it is, the Government of Canada might be reluctant to cost-share them. Another concern is that allowing some farmers to insure more acres than is allowed by the standard contract may be resulting in program benefits being delivered inconsistently.

In a management letter to the General Manager of the Corporation at the conclusion of the audit, I made the following recommendation:

Alberta Hail and Crop Insurance Corporation
- Compliance with Gross Revenue Insurance Plan contract

Recommendation No. 22

It is recommended that the Alberta Hail and Crop Insurance Corporation comply consistently with the insurance contract it has entered into with farmers, or alternatively, develop a new contract that reflects accurately the Corporation's policies and intentions for administering the Gross Revenue Insurance Plan. It is also recommended that the Corporation request the National Committee to provide formal guidance on aspects of the Gross Revenue Insurance Plan that are unclear.

Compliance with federal/provincial agreements

The Corporation administers the programs under two cost-sharing agreements between the Province and the Government of Canada. These are the National Agreement Establishing a Tripartite Gross Revenue Insurance Plan for Crops and the Canada/Alberta Crop Insurance Agreement. Some of the Corporation's administrative practices are not in accordance with the requirements of the agreements. For example:

- Coverage level adjustments

  Coverage level is the percentage of the probable yield of a crop in any risk area, or in any farm enterprise, that is insured under an insurance scheme. The Corporation limits downward coverage level adjustments to 5%, even though some producers have yield experiences that call for larger adjustments. This limitation contravenes section 5 of the Canada/Alberta Crop Insurance Agreement. During 1991-92, it resulted in additional insurance claims totalling $598,000. In addition, the Government of Canada reduced the claim for cost-sharing the insurance premiums involved by $103,000.

- Interest charges

  The Corporation charged farmers interest on unpaid premiums from December 1, 1991, even though section 5.3 of the Gross Revenue Insurance Plan for Crops agreement requires it to be charged from November 1. The Corporation approved the one month delay in charging interest in order to compensate farmers

for a delay in sending them their first interim revenue insurance claim payments.

- Premium discount adjustments restricted

  Under the Crop Insurance Regulations, a change in crop yields can result in a change to the farmer's net premium. The Corporation's practice is to not process net premium increases for yield variances for years where the farmer does not make a claim. The total insurance premium revenue forgone during 1991-92 as a result of this practice was approximately $264,000.

- Revenue protection payments

  Final claims on gross revenue insurance policies for 1991 cannot be calculated and paid until late 1992 or January 1993, when settlement prices for the preceding crop year are known. Accordingly, the Gross Revenue Insurance Plan Agreement allows for the payment of interim claims but limits them to 75% of the total estimated claim. The Corporation, however, paid interim claims representing 100% of the total estimated claims to farmers who maintained that they were experiencing severe cash-flow difficulties.

In a management letter to the Corporation's General Manager at the conclusion of the audit, I made the following recommendation:

Alberta Hail and Crop Insurance Corporation
- Compliance with federal/provincial agreements

Recommendation No. 23

It is recommended that the Alberta Hail and Crop Insurance Corporation discontinue current practices that do not comply with the federal/provincial insurance agreements, and take steps to amend the agreements. Where uncertainty exists as to whether or not a practice is in compliance with the agreements, the matter should be resolved with the parties involved, and the resolution be documented in regulations or formal guidelines.

The General Manager has since responded that steps are being taken to address these concerns.

Program criteria

In its first year of operation, the Gross Revenue Insurance Plan program reported a deficit of $131 million in Alberta, in addition to federal and provincial contributions in excess of $250 million. The deficit for the 1992 crop year could be even greater.

The program's purposes are outlined in the federal/provincial agreement, though only in general terms. Criteria such as farm income stability, resource neutrality and actuarial soundness are not clearly defined in terms that are capable of measurement. Discussions with federal and provincial officials suggest that there are inconsistent views. The interpretational issues that still need resolving with Agricultural Canada attest to the need to clarify the program's objectives and criteria.

Programs that are as large and expensive as this one need clearly defined operating criteria to guide program managers in focusing delivery efforts on the program's benefits and beneficiaries. Clearly defined objectives are needed against which to measure the program's effects and successes, thereby enabling proper accountability reporting.

In a management letter to the Corporation's General Manager at the conclusion of the audit, it was recommended that the purposes and goals of the Gross Revenue Insurance Plan program be clearly defined and precise measurable criteria established which can be used to further develop administrative policy and to assess and report on the success of the program.

Management information systems

In my 1990-91 annual report (page 38), I commented on errors in the Corporation's computer programs, and inadequate control over the information they were producing, which had resulted in inaccurate management information being generated. I recommended that the processes used to generate management information be reviewed to improve the reliability and timeliness of management reports. Despite the added pressures caused by the introduction of the Gross Revenue Insurance Program, the Corporation has improved the processes it uses to generate management information.

Financial record inaccuracies

In my 1990-91 annual report (page 39), I commented on a number of inaccuracies and inadequacies in the Corporation's financial records. I recommended that supervision over the maintenance of financial records and the timeliness of annual financial statements be improved. The Corporation has implemented this recommendation.

Other entities

Financial audits of the following were also completed:

Alberta Dairy Control Board - year ended March 31, 1992
Crop Reinsurance Fund of Alberta - year ended March 31, 1992
The Horned Cattle Purchases Act Trust Fund
- year ended March 31, 1992
Irrigation Land Manager - year ended March 31, 1992
Livestock Identification and Brand Inspection Fund
- year ended March 31, 1992
Livestock Patron's Assurance Fund - year ended March 31, 1992
Northern Lite Canola Inc. (formally Alberta Terminals Canola Crushers Ltd.) - year ended July 31, 1992
Stray Animals Act Fund - year ended March 31, 1992

Department of the Attorney General
year ended March 31, 1992

In addition to the annual financial audit, my staff completed an examination of the Calgary Land Titles Office, which focused on the systems related to revenue generation, cash receipts and refunds.

Claims for civil legal aid

The Department has still not resolved the issue of cost-sharing civil legal aid expenditures that are eligible for sharing with the Government of Canada.

The Department provides funding for civil legal aid through the Legal Aid Society of Alberta. Some of these expenditures could be eligible for cost-sharing with the Government of Canada under the Canada Assistance Plan. In the past, however, the Department has not claimed cost-sharing of these expenditures. As a result, the Province foregoes approximately $300,000 of revenue each year, and is one of only two provinces that does not cost-share civil legal aid expenditures.

I commented on this situation in my last two annual reports (1990-91 page 42). During 1991-92, efforts have been made to find ways to overcome the constraints to claiming. A proposal outlining the action required to be able to claim the amounts has now been submitted to Health and Welfare Canada, to which the Department is awaiting a response.

In a management letter to the Deputy Attorney General at the conclusion of the audit, it was again recommended that the Department continue its efforts to resolve the difficulties of cost-sharing eligible civil legal aid expenditures with the Government of Canada.

Other entities

Financial audits of the following were also completed:

The Alberta General Insurance Company
- year ended December 31, 1991

Personal Property Security Assurance Fund
- year ended March 31, 1992

Registrar's Assurance Fund - year ended March 31, 1992

Department of Career Development and Employment
year ended March 31, 1992.

In addition to the annual financial audit, my staff completed an examination of the systems used by the Department to monitor the performance of the Alberta Vocational Training Program. This Program finances the provision of needed labour market skills to unemployed or unskilled adults. In 1991-92 this Program cost approximately $18 million, representing 20% of the Department's total expenditure.

Alberta Vocational Training Program

Long-Range and Operational Plans

Management needs to promote among staff at all levels a consistent understanding of the goals and objectives of the Department, the divisions, and individual programs.

In recent years, various Departmental committees and task forces have produced a number of documents which collectively provide direction and guidance to staff. However, staff members are unclear whether these documents, either individually or in combination, comprise the long-range plans of the Department.

A long-range plan is required to provide clear direction to Department managers. The plan should promote staff understanding of the strategies necessary to achieve the Department's mandate of ensuring that the Alberta workforce is equipped with skills to keep the Province competitive.

The Field Services Division is responsible for delivery of the Vocational Training Program. However, the operational plan developed by the Division does not include specific, measurable expectations of the program. Thus, management may not be able to assess program efficiency or determine whether regional activities are consistent with Departmental priorities.

In a management letter to the Deputy Minister it was recommended that the Department prepare long-range plans and communicate them to all staff, and establish specific and measurable performance objectives for the Field Services Division.

The Department indicated that the planning process will be re-examined with a view to defining annual and strategic plans. It also intends to install a monitoring system in the Field Services Division which integrates Department goals, program objectives and service delivery. These developments will be examined during future audits.

Performance Information

The Department does not use available information effectively to monitor program performance.

Formal direction to area offices on information to be collected and reported would facilitate measurement of regional and program performance. A wide range of performance information and statistics is available at area offices, but there is no consistency in the nature and extent of data collected and reported. Formal direction would ensure that only pertinent information is collected, and would avoid the use of resources in maintaining unnecessary information.

Available, but inconsistently used information includes data on application statistics, drop-out rates, client demographics, and the number of applicants accepted and rejected. Application statistics could highlight differences in levels of demand between areas, and between years. Information on drop-out rates may be an indicator that the counselling process, or the training provided, is not meeting the objective of providing students with the skills necessary to enter the labour market.

In a management letter to the Deputy Minister it was recommended that the Department specify the nature and extent of program information and statistics which should be reported by regional offices for measurement of program performance.

The Department is currently installing a Vocational Training Information System designed to collect information which will be used to manage program delivery and monitor performance. In addition, the Deputy Minister indicated that standardization of information collected has occurred since the examination. These improvements will be examined during future audits.

Department of Consumer and Corporate Affairs
year ended March 31, 1992

None of the matters reported to management at the conclusion of the Department's annual financial audit were selected for inclusion in this report.

Alberta Insurance Council
year ended December 31, 1991

Compensation for losses

The Alberta Insurance Council does not have legislative authority to compensate certain insurance policyholders for loss.

The Alberta Insurance Council was established in 1988 and is responsible for providing the necessary administrative services to the councils appointed to deal with the regulation of three different segments of the insurance industry. The Alberta Insurance Council collects licensing and examination fees from insurance agents, brokers and adjusters. The Council remits these fees to the Provincial Treasurer and, in return, receives from the General Revenue Fund an amount equal to 85% of the fees collected.

On June 4, 1992, the Alberta Insurance Council, with the approval of the Department of Consumer and Corporate Affairs, announced a plan to provide compensation for losses sustained by individuals as a result of insurance policies issued by Bench Insurance Agencies, a Red Deer based insurance agency. Total claims for compensation amount to approximately $200,000. The Council has paid approximately $100,000 of this amount.

The Council does not have the legislative authority to provide compensation to policyholders. The Council acknowledged this fact in the notes to its financial statements for the year ended December 31, 1991. The Council needs to obtain an amendment to the Insurance Act giving it authority to compensate policyholders for losses.

In a management letter to the Chairman of the Insurance Council at the conclusion of the audit, I made the following recommendation:

> Alberta Insurance Council - Compensation for losses
>
> **Recommendation No. 24**
>
> It is recommended that the Alberta Insurance Council obtain legislative authority to provide compensation for losses incurred by certain policyholders.

I have since been informed that the Council and the Department intend to seek legislative amendments to the Insurance Act to permit compensation payments to policyholders.

Department of Culture and Multiculturalism
year ended March 31, 1992

In addition to the annual financial audit, my staff completed an examination of the systems used by the Department to safeguard Alberta's prehistoric and historic resources and to select resources for development.

Alberta Foundation for the Arts
seven months ended March 31, 1992

Use made of grants provided

The Foundation does not know whether certain grant recipients have used funds provided as intended.

The Foundation provides grants to persons and organizations to support and promote the arts in Alberta. Certain grants are provided with a requirement that the recipients submit financial reports showing how the funds were used. However, management has no system to identify outstanding reports. Without these reports, management cannot assess whether the Foundation's grants are being used for the intended purposes.

In a management letter to the Foundation's Executive Director at the conclusion of the audit, it was recommended that the Foundation improve its procedures for making grant recipients accountable for the funds provided.

Financial management

Internal control is not operating effectively. Significant findings during the financial audit were:

- An unacceptable number of grant payments were not properly supported. The Foundation's grant guidelines require that payments only be made with evidence of anticipated project completion dates, and statements of expected results and benefits.

- A $200,000 bond was not redeemed and reinvested on maturity. This resulted in a loss of interest earnings.

- The Foundation did not monitor the use of prepaid airline tickets issued to staff, committee and Board members.

- The Goods and Services Tax returns for the Foundation and for its predecessor Foundations were significantly delayed.

- Cash receipts were not recorded in the general ledger until the end of the fiscal period. As a result, the general ledger was

incomplete and incapable of providing useful financial information during the period.

- There was no evidence of timely follow-up or collection activity on grants recoverable.

In a management letter to the Foundation's Executive Director at the conclusion of the audit, it was recommended that the Foundation improve its accounting and administrative controls.

Glenbow-Alberta Institute
year ended March 31, 1992

In addition to the annual financial audit, separate audits were also completed of the financial statements of the Glenbow Foundation for the year ended February 29, 1992, and the Luxton Museum Ltd. for the year ended December 31, 1991.

My report on the 1991-92 financial statements of the Institute contains a reservation of opinion because, as explained on page 160 of this report, the Institute receives donation revenue which is not susceptible of complete audit verification.

Other entities

Financial audits of the following were also completed:

Alberta Multiculturalism Fund - year ended March 31, 1992
Culture and Multiculturalism Revolving Fund
- year ended March 31, 1992
Historic Resources Fund
- period from June 25, 1991 to March 31, 1992
The Alberta Art Foundation - five months ended August 31, 1991
The Alberta Foundation for the Literary Arts
- five months ended August 31, 1991
The Alberta Foundation for the Performing Arts
- five months ended August 31, 1991
The Alberta Historical Resources Foundation
- year ended March 31, 1992
The Government House Foundation - year ended March 31, 1992

Department of Economic Development and Trade
year ended March 31, 1992

Financial assistance programs

In my 1990-91 annual report (page 47), I recommended that the Department establish specific measurable objectives for its financial assistance programs and assess actual results in relation to these objectives. By defining the specific results to be attained and establishing targets that can be measured, the Department can improve the planning, execution, evaluation and reporting of its programs. Also, program evaluation would be improved if information gathered about achievements can be compared to specific established targets.

The Department is taking action to address the recommendation. My staff will continue to monitor the Department's progress.

Alberta Opportunity Company
year ended March 31, 1992

Venture funding

In my 1990-91 annual report (page 48), I recommended that the Alberta Opportunity Company use criteria consistent with its objectives to assess venture investments. The Company has indicated that it will no longer make investments in operations based in the United States. Should investment opportunities arise outside Alberta, the Company will seek legislative changes and specific approval from the government.

During this year's annual audit, my staff observed that the Alberta Opportunity Fund Regulations have been amended to provide guidance about the scope and nature of Venture and Seed capital investments. This amendment and the Company's indication that it will not make investments outside Alberta without proper authority satisfactorily address my concerns.

Other entities

Financial audits of the following were also completed:

Alberta Intermodal Services Ltd. - year ended December 31, 1991
Alberta Motion Picture Development Corporation
- year ended March 31, 1992
Motion Picture Development Fund - year ended March 31, 1992

Department of Education
year ended March 31, 1992

In addition to the annual financial audit, my staff examined the Department's computer information systems to determine if they support the Department's VISION plan.

In October 1991, the Department published a document entitled: "VISION for the nineties...a plan of action," which indicated the initiatives required to achieve the Department's mission statement of "The best possible education for Alberta students." The plan established 13 priority directions. It described the priorities for implementation, and the results expected to be achieved.

A publication called: "Achieving the Vision, 1991 Report" was issued in March 1992 to report progress. Together with the original action plan, this report is a significant improvement to the Department's accountability process.

Information systems

The Department does not have information systems standards.

The Department obtains information from its divisions in order to assess the progress achieved on the directions described in the VISION plan. This information needs to be integrated to determine the status of progress on such matters as educational standards and results, overall student achievement, curriculum quality, and educational opportunities.

Several information systems contain overlapping and duplicate information. In planning its future information requirements, the Department should remove the need to reconcile data entered from different sources at different times.

In a management letter to the Deputy Minister it was recommended that the Department improve the management of information used to assess its performance.

Education Revolving Fund
year ended March 31, 1992

Inventory

The Fund does not exercise adequate controls over inventory.

The Fund, which operates as the Learning Resources Distributing Centre, purchases, warehouses and sells learning resources to educational systems and the public. Education materials and teacher support resources, developed or sponsored by the Department of

Education, are produced and distributed by the Fund. Inventories at March 31, 1992 totalled more than $12 million.

Several physical and accounting control deficiencies regarding inventories were observed. The Fund's central warehouse is overcrowded, and therefore violates certain fire regulations. A further result of the overcrowding is that some supplies inventories owned by the Fund have to be stored in suppliers' premises. There are no controls to prevent unauthorized use of these supplies. It is also possible to record a transfer out of one warehouse without a corresponding receipt into another warehouse.

In a management letter to the Deputy Minister it was recommended that the Fund improve physical and accounting controls over inventories.

Other entities

Financial audits of the following were also completed:

Northland School Division No. 61 - year ended August 31, 1991
School Foundation Program Fund - year ended March 31, 1992

Department of Energy
year ended March 31, 1992

In addition to the annual financial audit, the following work was completed:

- An examination of the systems used by the Department to calculate crude oil royalties, freehold mineral rights tax and related incentives.

- An examination of the Department's methods for promoting the effective use of computers, and protecting the information on its computer systems.

- An examination of the Department's Internal Audit function.

Enhanced Oil Recovery, method of determining relief

In my 1990-91 annual report (page 52), I commented that the method used by the Department prior to June 1990 for determining the amount of Enhanced Oil Recovery relief available to a royalty payer was not consistent with the enabling legislation. I therefore recommended that the Department of Energy seek amendments to Section 11 of the Petroleum Royalty Regulation under the Mines and Minerals Act in order to clarify how the program should be administered.

The Department is currently developing a revision to the Royalty Regulation to clarify the administration of the program. I will monitor the program administration in future audits.

Enhanced Oil Recovery, accountability

In my 1990-91 annual report (page 53), I commented that the Department does not include in its Annual Report appropriate information to enable assessment of the success of the Enhanced Oil Recovery program. I therefore recommended that the Department disclose in its Annual Report details of the Enhanced Oil Recovery program in order to inform the Legislature about the extent of past and expected future royalty relief, and the benefits of such relief.

The Department has agreed to improve the reporting of the Enhanced Oil Recovery program by disclosing the amount of the relief granted in its Annual Report. I will monitor this disclosure in future audits.

Effective use of computers

The guidance provided to Department staff using computers is not complete.

The Departments of Energy, and Forestry, Lands and Wildlife share the services of a single Automated Information Services Division. The Departments have approximately 1,000 computers with a variety of processing capabilities.

Existing computer guidelines were developed at a time when the use of computers was not as extensive as it is now. At that time, their use was restricted to those employees who were familiar with the risks involved in protecting data from accidental loss. The guidelines do not address the needs of, and the risks posed by, new users. This lack of guidance has resulted in some staff members not using their computers effectively.

The conditions under which the existing computer security guidelines were adopted some years ago have changed. The Departments now have numerous small and portable computers posing various new risks. Portable computers containing critical and confidential information are, at times, taken off the premises. Also, data stored on these machines may not be adequately backed up, or protected from accidental loss.

In a management letter to the Deputy Ministers of Energy, and Forestry, Lands and Wildlife it was recommended that the Departments review and improve guidance to computer users to help them make more effective use of their equipment, and to improve the security of data.

In response, the Departments have agreed to update the guidelines provided to staff.

Internal Audit

Internal Audit's planning, performance and reporting of audits is deficient.

The Internal Audit function serves the Departments of Energy, and Forestry, Lands and Wildlife. The function has a broad audit mandate with the primary goal of assisting management to discharge its responsibilities by providing recommendations and pertinent comments on the activities reviewed.

In 1989, following a similar examination, I recommended that Internal Audit improve its long-term audit plan, and procedures. However, no tangible progress has been made to date.

Internal audit work is presently guided by a three year plan. However, the plan does not indicate the reason for the proposed

work or the nature, extent and timing of the audits. As a minimum, the plan should explain the rationale for the proposed work, and should consider factors such as the significance of the Departments' programs, the results of prior audits, and the assessment of internal control.

Internal Audit reports normally include long background and scope sections explaining how the audited systems work, and describing the audit work performed. An improved reporting structure would shorten report writing time, and encourage client management to respond promptly to the recommendations.

In a management letter to the Deputy Ministers of Energy, and Forestry, Lands and Wildlife it was recommended that Internal Audit in the Departments improve the planning, performance and reporting of audits.

Energy Resources Conservation Board
year ended March 31, 1992

Capital assets

The Board does not have adequate control over its capital assets.

Capital assets are recorded in the financial statements at $18 million. This amount, however, is not supported by a reliable listing of assets giving descriptions and locations. Without a complete and accurate listing of capital assets, management cannot perform the regular physical verification needed to prove the continued existence of the Board's assets.

My staff had considerable difficulty in locating certain capital assets, including expensive computer equipment. In addition, a number of capital assets had no tag number for identification, and the capital assets register included incorrect descriptions or locations for a number of items.

I raised this concern following the 1991 audit, and was assured that the Board planned to verify the existence and locations of assets and to review the existing system. However, no progress has been made.

In a management letter to the Co-Chairmen of the Board at the conclusion of the audit, I made the following recommendation:

Energy Resources Conservation Board - Capital assets

Recommendation No. 25

It is recommended that the Energy Resources Conservation Board improve control over its capital assets by verifying the existence and location of such assets, and accurately updating the asset register.

Other entities

Financial audits of the following were also completed:

Alberta Electric Energy Marketing Agency
- year ended March 31, 1992

Alberta Oil Sands Technology and Research Authority
- year ended March 31, 1992

Alberta Petroleum Marketing Commission
- year ended December 31, 1991

Province of Alberta Investment in Syncrude Project
- year ended March 31, 1992

Public Utilities Board - year ended March 31, 1992
Take-Or-Pay Costs Sharing Fund - year ended December 31, 1991

Department of the Environment
year ended March 31, 1992

In addition to the annual financial audit, my staff completed an examination of the systems used to identify and monitor the movement of hazardous waste in Alberta.

Hazardous waste

There is incomplete evidence to demonstrate how the Department investigates concerns that arise from the documentation it receives on movements of hazardous waste within and through the Province.

Alberta entities that generate, transport or receive hazardous waste must register with the Department. The Department's Industrial Waste Branch issues identification numbers to approved companies. There are currently about 4,500 generators, 1,500 carriers and 36 receivers registered with the Branch.

When hazardous waste is moved, both the generator and the receiver are required to send copies of the shipping documents to the Department. The documents show the nature and quantity of the material, the parties involved in the movement, and their identification numbers. The Department can use this information to monitor movements of hazardous waste within the Province, and to check that it is handled only by licensed entities that have the appropriate expertise.

The Branch produces periodic reports identifying situations where the generator or the receiver, but not both, has reported shipments. The reports also identify situations where the amounts reported by the generator and the receiver differ. These might represent situations where waste was dumped at unauthorized sites or where it has been handled by entities not registered with the Department. The Industrial Waste Branch's policy is to follow-up situations where only one copy of a shipping document is received, or where the difference between the quantity shipped and received is significant.

The Department is confident that it is doing everything necessary to ensure that legislative requirements are being complied with. There is evidence that follow-up has been initiated or conducted in some cases, however the Branch has numerous unmatched shipping documents dating back to 1985. Many of these reflect situations where the generator or receiver is located outside of Alberta. The others may be the result of generators and receivers recording wrong quantities, or forgetting to send copies of shipping documents to the Department. There is little evidence in these latter cases, however, to show that the Department has satisfied itself that the waste was not dumped illegally or handled by unregistered companies.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department retain better evidence that it is investigating unmatched or mismatched shipping documents, or the reasons for not investigating them.

Other entities

Financial audits of the following were also completed for the year ended March 31, 1992:

Alberta Environmental Research Trust
Alberta Special Waste Management Corporation
Environment Council of Alberta
Water Resources Revolving Fund, and

Natural Resources Conservation Board for the period ended March 31, 1992

Department of Family and Social Services
year ended March 31, 1992

In addition to the annual financial audit, the following work was completed:

- An examination of the systems used to control expenditures under the Supports for Independence and Assured Income for the Severely Handicapped programs, with particular emphasis on compliance with practice and program manuals.

- Audits of the 1990-91 cost-sharing claims under the Vocational Rehabilitation of Disabled Persons Agreement and the Canada Assistance Plan Agreement with the Government of Canada.

- An examination of Assured Income for the Severely Handicapped files to determine whether shelter costs are being reflected properly in federal/provincial cost-sharing claims.

- An examination of the administrative and monitoring aspects of the systems used to help ensure the survival, security and development of children under Permanent Guardianship Orders.

- An examination of the information systems used to help employable clients achieve financial independence.

- An examination of the systems used to monitor the number of cases handled by various levels of program staff.

Social allowance and assured income programs

The Department's Supports for Independence program provides social assistance to people in need. The Assured Income for the Severely Handicapped program provides financial and health benefits to severely handicapped adults.

During 1991-92, benefits under the two programs cost $855 million and $140 million respectively. These amounts comprise a large number of relatively small payments to a large number of people. The Department refers to these people as its clients. Ensuring that benefits are only paid to eligible clients, and that the amounts paid are accurate, is often complicated by the clients' diverse and changing needs.

In recent years, administrative errors or oversights by caseworkers have resulted in overpayments of program benefits. Last year, however, I was able to report a significant reduction in the number and amount of these overpayments during 1990-91. The improvement continued during 1991-92. As illustrated by the

following observations, however, I am still concerned that some of the data used to calculate benefits may be unreliable.

Eligibility for benefits

The Department does not always obtain documentary proof that the information used to establish social allowance benefits is accurate.

Much of the information used to calculate benefits is provided by the clients themselves. Income Support Workers are responsible for obtaining evidence to confirm that the information provided by clients is correct. For example, documentation should be obtained to confirm the client's identity, medical condition, living arrangements, and the existence of dependants, etc.

Depending on the clients' needs and circumstances, their files should contain employability assessments, employment action plans and annual reviews of the circumstances of severely handicapped clients. As explained in previous annual reports (1990-91 page 67), clients' files often do not contain all the appropriate documentation.

Thirty three percent of a sample of client files examined during the 1991-92 audit lacked complete documentation. Extrapolated statistically, this suggests that between 33% and 49% of client files lack the evidence needed to verify the correctness of the information used to calculate benefits. The 1990-91 audit revealed a similar rate. The most frequent deficiency is in documentation to evidence a client's identity and dependants. More than 18% of the files examined lacked this documentation.

The absence of dependable supporting documentation casts doubt on the correctness of the benefits paid. If the information provided is incorrect, the benefits paid may also be incorrect.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

> Department of Family and Social Services - Eligibility for social allowance and assured income benefits
>
> **Recommendation No. 26**
>
> It is recommended that the Department of Family and Social Services seek ways of ensuring that Income Support Workers comply with the Department's established policies for verification of client eligibility, thereby reducing the risk of incorrect benefits being paid under the Supports for Independence and Assured Income for the Severely Handicapped programs.

The Department has since indicated that it will review and clarify its policy regarding the evidence that is critical to determine eligibility.

<u>Supports for Independence, additional shelter allowances</u>

Additional shelter allowances are being paid in a manner that is not in accordance with the Social Allowance Regulations.

Under the Regulations, clients are paid an allowance to cover monthly shelter costs such as rent and utilities. The amount normally paid is the lower of the actual shelter costs and the maximum regulated allowance. The maximum regulated allowance depends on the size of the client's family.

If a client's actual shelter costs exceed the maximum regulated allowance, an additional monthly shelter allowance of up to $300 can be paid. The regulations state that an additional allowance can only be paid in special circumstances. An example is where a physician certifies that the health of a client or dependant would be endangered by a move, or where the client is disabled and lives in specially adapted accommodation. As well, payment of the additional allowance is at the discretion of a senior official who must be satisfied that extreme hardship would result from not paying the additional allowance.

A large sample of files of clients who were paid an additional shelter allowance was examined during the audit. One quarter of these files lacked evidence that the client's circumstances were as specified in the Regulations, or that the approval process had been followed before the additional allowance was paid. This was particularly prevalent in the Edmonton and Calgary district offices.

I acknowledge that work pressures caused by increasing numbers of clients seeking assistance make it increasingly difficult for staff to exercise strict control over discretionary benefits. However, in view of the extent and potential cost associated with the observed problem, the validity of these payments warrants closer attention.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

> Department of Family and Social Services - Additional shelter allowances
>
> **Recommendation No. 27**
>
> It is recommended that the Department of Family and Social Services investigate the extent to which it might be paying additional shelter allowances without the justification and approvals required by legislation.

The Department has since indicated that procedures are being introduced to identify where incorrect additional shelter allowances are being paid.

<u>Assured Income for the Severely Handicapped program, cost-sharing shelter costs</u>

Shelter costs of clients who receive benefits under the Assured Income for the Severely Handicapped program are not being accounted for in a manner that maximizes cost-sharing with the federal government.

Some of the benefits paid under this program can be cost-shared with the federal government under the Canada Assistance Plan. For costs to be shareable, the Department must obtain information about the clients' assets and living arrangements. Inaccuracies in accounting for this information revealed by previous audits led Health and Welfare Canada to believe that the Province's claims under the Canada Assistance Plan were excessive. To clarify the situation, my Office undertook a special audit of shelter costs and their eligibility for federal cost-sharing.

Clients cannot be required to divulge details of their assets and living arrangements. But if they do, their benefit payments should be coded for cost-sharing. The audit included examining a number of client files, some of which had benefits coded, and some of which did not.

Statistical extrapolations of the results obtained satisfied the federal government that the Province has not overclaimed shelter costs. On the contrary, incorrect coding appears to have resulted in the Province underclaiming about $300,000 of eligible costs each year. Further costs in the $2.3 to $3.5 million range have also been underclaimed because client assets and living arrangements were not coded for cost-sharing.

The Department is pursuing these underclaims with Health and Welfare Canada.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

> Department of Family and Social Services - Assured Income for the Severely Handicapped, cost-sharing shelter costs
>
> **Recommendation No. 28**
>
> It is recommended that the Department of Family and Social Services encourage caseworkers to ensure that Assured Income for the Severely Handicapped clients' shelter costs and asset levels are recorded correctly for cost-sharing purposes.

Child welfare services to children under permanent guardianship orders

Under the Child Welfare Act, the Department provides services to approximately 2,000 children who are subject to permanent guardianship orders issued by the Courts. These children represent 25% to 30% of the children who receive child welfare services from the Department.

The Act requires the Department to provide services that address the survival, security, and development of children. The Department's Child Welfare Handbook provides additional and more specific guidance for the children's case managers.

<u>Education and health requirements</u>

There is insufficient evidence to determine whether the Department is discharging its responsibilities relating to the educational and health-related development of children under the Child Welfare Act.

Many of the children's files lack information about school grade levels, the programs they are enrolled in, and whether the appropriateness of the programs has been assessed by the case manager in consultation with the child's foster parents or other caregiver. Similarly, school report cards and evidence that case managers are contacting teachers twice each school year are rarely

on the files. All of these are practice requirements of the Child Welfare Handbook.

Documentation to show that the children's health-related development is being monitored is similarly incomplete. For example, many files lack evidence that the children have received annual medical, optical and dental examinations. Some files do not contain a recent photograph of the child. Photographs can be invaluable should the child go missing.

It is unclear whether the documentation is missing because case managers are not discharging their duties, or because they are not recording all that they do. In some cases, responsibility for the children's educational and health-related development has been delegated to the children's caregivers. In such cases, however, the Department should monitor to ensure that the caregivers are discharging those responsibilities.

The Department believes that this is a problem with documentation, rather than non-compliance with policy, and has committed to review and clarify documentation standards.

In a management letter to the Deputy Minister it was recommended that the Department encourage its case managers to take a more active role in satisfying the requirements of the Child Welfare Act relating to the education and health of children in care.

<u>Contacts with children</u>

The Department does not have evidence that its case managers are contacting their children as often as practice standards require.

The Department's practice standards stress the importance of regular personal contacts by case managers with the children and with their caregivers. Depending on the circumstances, contacts can vary from telephone calls to home visits.

Some contacts must be face-to-face, alone and away from the caregivers. This provides opportunities for case managers to build relationships with their children, and for the children to discuss their concerns. The Department's standards call for monthly contacts and quarterly face-to-face contacts, except during the first year after a child receives permanent guardianship order status when face-to-face contacts are to be monthly.

Most of the case files examined during the audit lack evidence that case managers are complying fully with the Department's personal contact and face-to-face contact standards. Some program staff

seemed unaware of some of the standards. If children do not meet with their case managers regularly, they may not have enough opportunities to provide the necessary input to planning their future, or to discuss any problems they may be experiencing.

I acknowledge that, due to pressures of work or other reasons, case managers may not always record contacts with their children. However, in view of the emphasis placed on contacts by the Department's standards, particularly face-to-face contacts, the Department should be able to demonstrate compliance with those standards.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that evidence be retained by the Department of the frequency of personal contacts between children under permanent guardianship orders and their case managers.

Program monitoring

The process by which the Department monitors compliance with, and promotes improvements in, child welfare practices and standards is not operating as effectively as it could.

In January 1991, the Department established a Quality Improvement Branch. The Branch is mandated to promote improvements in case practice and monitor compliance with the Child Welfare Act and Handbook by reviewing child welfare operations across the Department's six regions every three months. The Branch also provides senior management with information about the quality and levels of service provided.

Staff shortages have hampered the efforts of the Branch during its first year and a half of operation. Reviews are supposed to be performed by case supervisors who, it was hoped, would volunteer for six month secondments to the Branch. However, there has been a shortage of volunteers partly, it seems, because of the policy of not allowing supervisors to perform reviews in their own region.

Staff shortages, allied with budget constraints affecting travel expenditures, have resulted in the Branch operating below its intended level. As well, review results have not always been provided promptly to supervisors, with the result that corrective action has not always been taken promptly.

The Department recognizes the need for improvements in the way that the Quality Improvement Branch operates. Standards for promoting timely reporting have been established, and a more

flexible recruitment strategy, within the constraints of the government-wide hiring freeze, is being considered.

I believe that the Department's Quality Improvement Branch has the potential to improve considerably the Department's operating and accountability practices.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

> Department of Family and Social Services - Inadequate monitoring of child welfare practices and standards
>
> **Recommendation No. 29**
>
> It is recommended that the Department of Family and Social Services review the operations of its child welfare Quality Improvement Branch in an effort to seek cost-effective and timely ways of achieving the Branch's objectives.

Child Welfare Information System

The Department's computerized Child Welfare Information System still does not provide accurate and complete information on children under the Department's care.

The Child Welfare Services program provides services to more than 8,000 children. The services include operating child-care institutions and group homes, and contracting with community agencies to provide related services. The Department also administers support agreements, supervision orders, foster care and adoption services. The Child Welfare Information System is a central system that provides case managers and senior management with information about the children and the services they receive.

In past annual reports (1990-91 page 70), I commented on deficiencies in the system. Some of the information it contains is inaccurate or incomplete, and the system is difficult for case managers to access and use. Last year, I was informed that implementation of a redeveloped system was planned for June 1993. However, implementation has been put back to April 1994, partly because of a reduction in the funding available for the project and the need to incorporate specifications from the newly designed foster care model.

In a management letter to the Deputy Minister at the conclusion of the audit, it was again recommended that the Department continue with its efforts to develop a Child Welfare Information System that

can meet fully the operational needs of case managers and the information needs of the Department.

Daycare licensing

The Department needs a more objective process for dealing with daycare operators who consistently fail to comply with the requirements of the Day Care Regulation.

The Department is responsible for administering and enforcing the Province's Day Care Regulation. This involves licensing daycare operators, monitoring their operations, and taking corrective or disciplinary action when the Regulation is not complied with. Disciplinary action can include issuing stop orders, refusing to renew licenses, or issuing licenses for limited periods.

Currently, there are no formally sanctioned policies to guide Departmental staff in deciding what disciplinary action to take, when to take it, and how much evidence is needed to prove that non-compliance has occurred. It is often left to individuals or groups of individuals to decide how serious the breaches of Regulations are, and the appropriate Departmental response.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department adopt a more objective process for evaluating compliance by daycare operators with the Day Care Regulation, and ensure that the response to non-compliance is consistent throughout the Province.

I am informed that the Department has now approved a daycare licensing policy and procedures manual, and will be reviewing its current legal practices and legislative authorities in this area.

Daycare developmental programs

The Day Care Regulation requires daycare operators to provide programs that are in keeping with the children's developmental needs. In my 1990-91 annual report (page 69), I noted that the Department's licensing officers do not review the developmental adequacy of the programs. The Department was planning to have licensing officers assess the programs before approving license renewals. An assessment document and related instruction manual were to be implemented in December 1992. I am now informed that pilot testing of the assessment process has been deferred to July 1993. Progress will be reviewed during future audits.

Employable clients

Better information is needed by caseworkers to help clients obtain financial independence through employment, and to assess the effectiveness of this aspect of the Supports for Independence program.

The Department's Supports for Independence program replaced the Social Allowance program in early 1991. An important aspect of the new program is the emphasis on fostering financial independence in clients who are able to work. Caseworkers encourage their clients to engage in training, and to obtain and retain employment.

For this aspect of the program to succeed, caseworkers need up-to-date and relevant information about their employable clients. Currently, however, the information on the clients' files about their employment history or training progress is often fragmented or incomplete. Very few files contain the client's resumés or a history of employment and education. Clients' action plans designed to help them become independent often lack target dates for goals or deadlines by which progress needs to be reviewed.

Furthermore, while the program's employment mandate is clear, the Department has yet to develop a system to assess its success with this aspect of the program. It does not adequately monitor the progress of employable clients, either individually or collectively, to determine whether they are becoming financially independent as a result of the program.

I acknowledge that jobs have been difficult to obtain in recent years. However, unless caseworkers have up-to-date and complete information on the training, skills and experience of employable clients, they will be ill-equipped to help them when openings occur. Better information on program results could also be used to identify successful employment strategies and opportunities to improve program delivery. It could also perhaps help to explain why some clients are able to leave the program for permanent jobs, while others return after only brief periods of work.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Department of Family and Social Services - Assistance to employable clients

Recommendation No. 30

It is recommended that the Department develop a system to provide comprehensive information on the history, training and work experience of employable clients, for use by caseworkers to help clients find employment.

The Department has since indicated that a project is underway to develop a system to support employment counselling.

Timeliness of Canada Assistance Plan claims

Cost-sharing claims under the Canada Assistance Plan agreement are still not as accurate and timely as they should be.

Most of the Department's expenditures are cost-shared with the federal government under the Canada Assistance Plan. The Department submits interim monthly claims to the federal government. Summary annual claims are audited by my Office. Previously, I have reported on problems with the systems used to process cost-sharing claims. Most of these problems have since been addressed, but some still remain.

The Department has a computer system that generates residential institution occupancy days and other information used to prepare the claims. Some of the information generated, however, is inaccurate. To compensate for this, clerical staff must manually check the information and the calculations. Even then, errors are not always found and corrected.

One interim claim was understated by $2.9 million because the Department did not detect an addition error. In another interim claim, a $600,000 adjustment was added to the claim, instead of being deducted. Both errors were eventually found by the federal government. The $2.9 million error, however, was not detected for more than six months, with the result that the funds were received later than they should have been.

Shareable costs are usually included in interim claims for the month after they are incurred. Similarly, any adjustments to claims are made as soon as they are identified. However, adjustments of $286,000 and $239,000 for 1990-91 were not claimed until March 1992. As well, shareable daycare costs of $370,000 incurred before March 1991 were not included in claims until my staff brought the omission to the Department's attention in March 1992.

Some costs require analysis in addition to federal government approval before they can be cost-shared. The Department accumulates these costs in a special account until they can be claimed. At March 1992, the special account contained almost $1 million of daycare costs that had been incurred more than a year earlier. More effort should have been made to claim these costs more promptly.

Claiming eligible expenditures and resolving uncertainties promptly improves the Province's cash-flow and can minimize financing costs.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department improve the effectiveness of the systems used to generate information for monthly cost-sharing claims, and to ensure that the claims are prepared accurately. It was also recommended that all costs be claimed as soon as possible.

I am informed that the Department's Cost-sharing Unit has implemented new review procedures to improve the accuracy and timeliness of the 1991-92 claims.

Delays in submitting cost-sharing claims

Annual cost-sharing claims under the Vocational Rehabilitation of Disabled Persons Agreement are still being filed late, and some of the ratios used to apportion costs have not been reviewed for many years.

The Department co-ordinates the rehabilitation services provided by itself, and other Provincial departments and agencies. It also co-ordinates the preparation of federal cost-sharing claims under the Vocational Rehabilitation of Disabled Persons Agreement.

In my 1990-91 annual report (page 72), I explained that some of the interim claims submitted by departments and agencies were inaccurate and late. The annual audited claim was also prepared and submitted late.

Most of the problems that caused earlier claims to be late have now been addressed. Even so, the 1990-91 annual claim was again forwarded to the federal government after the one year filing deadline. One reason for the delay was that some non-government funded agencies were late in filing their March 31 financial statements with the Department. Without these statements, the Department cannot finalize the Province's annual claim. This problem is likely to become more acute because some agencies are changing their fiscal year-ends to June 30.

Some of the expenditures that are cost-shared are apportioned in pre-agreed ratios. This happens, for example, where only a portion of the residents of a sheltered-workshop qualify to have their expenditures cost-shared. Many of the ratios being used, however, have remained unchanged for many years. Furthermore, there is no evidence that anyone has reviewed the continuing validity of the ratios and, in some cases, no documentation exists to support the ratios being used.

Cost-sharing ratios need to be reviewed periodically, and revised where necessary, to reflect current realities. Otherwise, there is no assurance that the Province is receiving all the benefits it is entitled

to under the Vocational Rehabilitation of Disabled Persons Agreement.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department establish realistic target dates for completing final claims, and in consultation with Health and Welfare Canada, agree the extent to which estimates can be included in final claims. It was also recommended that departments and agencies review regularly, and retain documentary evidence to support, the bases for all apportionments of costs used for cost-sharing purposes.

The Department has since informed me that an agreement has been reached with Health and Welfare Canada for the timely submission of final claims based upon actual costs. The Department also indicated that the methodology used for apportioning 1991-92 costs used for cost-sharing has now been reviewed and documented.

Fraud investigations

In my 1990-91 annual report (page 71), I commented on the need for the Department to continue with its efforts to ensure that investigations are carried out promptly. I was particularly concerned about a long-standing backlog of cases where, based on information provided by the public or the Department's own staff, there was reason to suspect that program benefits were being obtained fraudulently.

The Department has since set criteria for its Fraud Investigation Unit to ensure that the most serious cases receive prompt attention.

Department of Federal and Intergovernmental Affairs
year ended March 31, 1992

There were no matters reported to management at the end of this year's annual financial audit.

Department of Forestry, Lands and Wildlife
year ended March 31, 1992

In addition to the annual financial audit, the following work was completed:

- An examination of the Department's methods of promoting effective use of computers, and protecting the information on its computer systems.

- An examination of the Internal Audit function in the Departments of Energy, and Forestry, Lands and Wildlife.

Computer guidelines

The Departments of Energy, and Forestry, Lands and Wildlife share the services of a single Automated Information Services Division. I have reported my concerns regarding this function under the Department of Energy (page 92).

Internal Audit

Internal Audit serves the Departments of Energy, and Forestry, Lands and Wildlife. I have reported my concerns regarding this function under the Department of Energy (page 92).

Other entities

Financial audits of the following were also completed for the year ended March 31, 1992:

Fish and Wildlife Trust Fund
Forest Development Research Trust Fund
Forestry Lands and Wildlife Revolving Fund

Department of Health
year ended March 31, 1992

In addition to the annual financial audit, the following work was completed:

- An examination of the systems used by the Department to manage the prescription drug program.

- An examination of the systems used by the Department to allocate hospital funding for inpatient care.

Prescription drug program

The Department provides a prescription drug program to residents who are unable to obtain similar benefits through an employer and to qualified residents such as senior citizens, widows and widowers. Alberta Blue Cross administers the program for the Department and gives registrants a Blue Cross card to obtain services. The Department reimburses Blue Cross for prescription drug claims paid on behalf of approved registrants and pays Blue Cross administration fees.

In 1991-92, the prescription drug program cost approximately $120 million net of $17 million of premiums received from registrants. In addition, $9 million was paid to Alberta Blue Cross for administration fees.

Administration fees

The $9 million of fees paid to Alberta Blue Cross for the administration of the prescription drug program may be excessive.

Adminstration fees are based on gross claims processed, at rates ranging from 4.6% in 1991 to 3.9% for 1993. These rates are substantially higher than rates charged to the Department of Family and Social Services and the Government Employees' Group Plan for similar service.

If the rate charged by Alberta Blue Cross was similar to the rates charged to these entities, I have estimated that annual savings of about $2.2 to $7.4 million could be realized.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

> Department of Health - Prescription Drug Program, administration fees
>
> **Recommendation No. 31**
>
> It is recommended that the Department of Health determine whether the fees paid to Alberta Blue Cross for the administration of the prescription drug program are reasonable.

Drug costs

The Department could reduce the cost of the prescription drug program by limiting excessive claims.

Prescription drug claims are submitted by registrants or by pharmacies on behalf of registrants. Eligible reimbursements are based on an approved drug list. The amount reimbursed is the charge by the pharmacy which represents the cost of the drug dispensed, plus a fee to cover overhead costs. The Department relies on pharmacy audits performed by Alberta Blue Cross for assurance that the claims paid represent the pharmacies' actual costs.

There are significant variances between pharmacies, as well as within the same pharmacy, in the charges for identical drugs. Some of these variances could be the result of differing purchasing power due to volume discounts. For the purposes of comparing drug charges, a brand-name drug and each generic version were treated as separate drugs and not considered to be identical. In other words, the variances are not as a result of substituting generic drugs for brand-name drugs.

The Department could save substantial amounts by implementing a system to control its reimbursement of drug costs. For example, I have estimated that limiting the amount claimed for a drug to no more than the average charge by all pharmacies for that drug could save approximately $2 million annually. If claims were limited to the lowest amounts charged, savings could be approximately $38 million annually.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

> Department of Health - Prescription Drug Program, drug costs
>
> **Recommendation No. 32**
>
> It is recommended that the Department of Health determine that benefits under its prescription drug program are provided in a cost-effective manner.

It is understood that the Department plans to reduce prescription drug program costs by introducing a list of interchangeable drugs in early 1993. This list should guide pharmacies in dispensing lower-cost alternative drugs.

<u>Approved drugs</u>

New drugs are added to the approved drug list without an adequate cost/health-benefit analysis.

Health and Welfare Canada approves the introduction of new drugs in Canada. Additions to the list of drugs approved for reimbursement in Alberta are based on advice given to Alberta Health by two expert committees.

Although the committees provide advice on the drugs that should be added to the approved list, they do not have the necessary information to determine the cost-effectiveness of these new drugs. Cost-benefit analysis would help the Province to avoid introducing an expensive new drug whose cost outweighs the health benefit. Cost-benefit analysis would also identify new drugs which, when compared to existing drugs, provide little or no improved benefit yet cost significantly more.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

> Department of Health - Prescription Drug Program, approved drugs
>
> **Recommendation No. 33**
>
> It is recommended that the Department of Health determine that only cost-effective drugs are approved for reimbursement.

It is understood that the most efficient method to perform cost-benefit analyses may be a co-ordinated effort by Health and Welfare Canada and the Provinces.

Inpatient care funding

Annual Provincial grants for hospital inpatient care are approximately $1 billion, which is 8% of Provincial budgetary expenditures. Traditionally, this funding has been based on a hospital's previous expenditures adjusted for inflation. The funding method was not based on the level of services which a hospital provided.

In 1988, the Department initiated the Acute Care Funding Project. The purpose of this project is to help determine each hospital's inpatient funding requirements. Funding needs are based on a performance index. The Department obtains hospital performance information such as patient volumes, the severity of illnesses treated, and the use of resources in order to calculate a performance index for each hospital. The index is used to determine each hospital's funding for inpatient care.

The new funding method is intended to match resources provided with results obtained.

<u>Hospital inpatient cost and medical information</u>

The inpatient cost and medical information used by the Department to determine hospital funding may not be reliable.

Hospitals submit inpatient cost information directly to the Department. Inpatient medical information for Alberta hospitals is provided to the Department by the Health Medical Records Institute. The Institute receives patient medical records from hospitals in Canada and distributes certain information to authorized entities.

Funding increases may not have been allocated to effective inpatient units as intended under the project's objectives. An examination of the inpatient information used for funding decisions found that:

- certain treatment costs reported in some hospitals' financial statements were not included in the hospitals' information returns used to determine inpatient care costs.

- medical information obtained from the Health Medical Records Institute contained several anomalies which could have inappropriately influenced the Hospital Performance Index used for funding adjustments. For example, duplicate patient records and significant variations in length of patient stay for comparable illnesses were observed. The variations could result from errors

in coding or the inconsistent interpretation and use of diagnostic codes.

Departmental staff should increase their efforts to determine whether inpatient cost and medical information used for funding decisions is accurate and consistent among hospitals.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Department of Health - Inpatient care funding, hospital inpatient cost and medical information

Recommendation No. 34

It is recommended that the Department of Health determine whether inpatient cost and medical information used to allocate funds to hospitals is reliable.

Acute Care Funding Project implementation

The new method of funding under the Acute Care Funding Project has not been fully implemented.

The Project began in 1988 with the assembling of information needed to calculate a performance index to determine each hospital's inpatient funding level. The Department decided that the funding increases and decreases indicated by use of the index would be implemented over a period because the impact of a full reallocation would be too great on the hospitals which were to lose funds. Actual implementation began in 1990-91 when approximately $3.5 million was reallocated. In 1991-92, the Department reallocated approximately $13 million and in 1992-93 expects to reallocate approximately $11 million.

The reallocation of $27.5 million in these three years is much less than the $65.5 million that the index identified as needing reallocation. In order that efficiencies and other benefits anticipated from Project implementation can be realized, the Department should reallocate the balance of $38 million as soon as possible.

Information received under the Acute Care Funding Project methodology provides a means to locate inefficiencies in hospitals' performance. This information could therefore be used to further adjust grant payments to hospitals.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Department of Health - Inpatient care funding, Acute Care Funding Project implementation

Recommendation No. 35

It is recommended that the Department of Health fully implement the new method of funding under the Acute Care Funding Project.

Capital asset costs

The impact of capital asset costs in determining hospital funding for inpatient care is not fully considered.

The cost of capital assets owned by acute care hospitals in Alberta is estimated at $800 million. A significant portion of these capital assets is required for inpatient care.

Reported inpatient operating costs are significantly different for hospitals which purchase assets as compared to those which lease assets. Although resource consumption and true costs may be similar, reported operating costs differ because lease costs are included but amortization of purchased capital assets is excluded.

The impact that leasing versus purchasing capital assets has on inpatient funding has not yet been determined. It is necessary, however, to separate any decisions on whether or not to continue direct funding of capital asset acquisitions from decisions on efficiency. For determining efficiency, cost should include amortization even if amortization is excluded in the funding of operating costs. It should be noted that some hospitals already amortize capital assets and others are expected to start.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Department of Health - Acute care funding, capital asset costs

Recommendation No. 36

It is recommended that the Department of Health assess the impact of capital asset costs in determining hospital funding for inpatient care.

Community Mental Health Services, program delivery

The Department has not determined whether community mental health services are being delivered economically and whether its objectives are being met. I reported this matter in my 1990-91 annual report (page 78).

The Department provides mental health services through approximately 90 community mental health clinics which are organized into six regions. The clinics' operating costs are approximately $32 million annually. The locations and staffing levels of existing clinics have remained relatively unchanged since their establishment in 1972.

Several other organizations such as hospitals, extended care centres, privately owned clinics and public health units provide services similar to those available at community mental health clinics. The Departments of Family and Social Services, Education, Solicitor General, and the Alberta Alcohol and Drug Abuse Commission also sponsor programs that offer mental health services.

The clinics were requested by the Department to assess the level of specific mental health services required within a community, including the evaluation of children's mental health services and the services provided by suicide prevention coordinators. It was expected that any duplicate services provided by other agencies would be identified and that each clinic would co-ordinate its services with those of other agencies and thereby realize any potential economies.

The Department's requirements have not been dealt with by all clinics. For example, the work plans of the six regions indicate that:

- only three regions intend to evaluate children's mental health services, and

- only two regions intend to evaluate the role of suicide prevention coordinators.

To determine where potential economies can be realized, the Department needs information to assess whether its community mental health services program meets the needs of communities, and whether the resources consumed by the program are reasonable in relation to results or outcomes achieved, and where any duplicate services exist. Currently, information about clinics consists only of activities undertaken and staff hours. Further, operating costs for certain clinics are not available to the Department.

In a management letter to the Deputy Minister at the conclusion of the audit, I again made the following recommendation:

> Department of Health - Community Mental Health Services, program delivery
>
> **Recommendation No. 37**
>
> It is recommended that the Department of Health determine whether its community mental health services are managed in the most cost-effective manner.

Hospital rates used to bill non-eligible patients

The costs of hospital services provided to non-eligible patients are still not recovered. I reported this concern in my 1990-91 annual report (page 79).

The Department sets rates that hospitals can charge for services to patients who are not eligible to receive Provincial health benefits. Such patients include, for example, residents of other Provinces who wish to use the specialized medical services available in Alberta. Rates set include an inpatient rate per day, an outpatient rate per visit, and rates for selected inpatient and outpatient high-cost procedures, such as organ transplants, magnetic resonance imaging scans, and special implants. Rates set are based on recommendations received from an interprovincial committee on institutional and medical services.

The hospitals reported approximately $73 million in revenue during 1990-91 from non-eligible patients. I have estimated that the cost of providing medical services to non-eligible patients exceeded the reported revenue in 1990-91 by approximately $6.6 million.

The under-recovery of costs results from the use of a rate structure that is not based on an appropriate estimate of actual costs. Also, certain expensive procedures are not billed separately at rates higher than the daily rate. For example, certain expensive procedures such as open heart surgery are billed on the basis of the daily rate rather than at an appropriate high-cost procedure rate. Furthermore, the Department lacks information to determine if rates set are sufficient to recover the actual cost of hospital medical services provided. Hospitals do not separately accumulate the costs of treating non-eligible patients.

In a management letter to the Deputy Minister at the conclusion of the audit, I again made the following recommendation:

> Department of Health - Hospital rates used to bill non-eligible patients
>
> **Recommendation No. 38**
>
> It is recommended that the Department of Health review the rates charged by hospitals to non-eligible patients to ensure that the costs of medical services provided are recovered.

Recoverable hospitalization charges

Certain hospital costs which are recoverable from The Workers' Compensation Board are not identified and, therefore, not billed to the Board. As a consequence, costs that should be charged to employers through the Board are borne by the Province.

In my 1988-89, 1989-90 and 1990-91 (page 81) annual reports, I recommended that the Department require hospitals to recover all amounts that are the responsibility of The Workers' Compensation Board.

A comparison of hospital information submitted to the Department with records at The Workers' Compensation Board indicated that approximately $5 million annually could be recovered. If such an amount was recovered by the hospitals, the Department could reduce its grant payments to the hospitals by an equivalent amount.

The Department requires hospitals to identify and to recover costs for patients who are the responsibility of The Workers' Compensation Board. However, the hospitals are unlikely to be successful because:

- the hospitals do not have access to all the records that indicate potential recoveries. For example, the Department maintains certain claims information which hospitals could use to identify patients whose costs should be billed to the Board.

- the hospitals may have no real incentive to identify recoverable amounts. For each dollar recovered from The Workers' Compensation Board, hospitals could lose an equivalent dollar in grant support payments from the Department.

In my opinion, the Department could provide hospitals with further assistance in identifying potentially recoverable amounts.

As my concern has not yet been resolved, in a management letter to the Deputy Minister at the conclusion of the audit, I again made the following recommendation:

> Department of Health - Recoverable hospitalization charges
>
> **Recommendation No. 39**
>
> It is recommended that the Department of Health assist hospitals in identifying costs that are the responsibility of employers through The Workers' Compensation Board.

It is understood that the Department will first arrange with the Board to improve the method of identifying claim payments under the Alberta Health Care Insurance Plan that should be recovered from the Board.

Verification of patient registration

Hospitals lose revenue since patients' eligibility to receive services free of charge is not checked by establishing the validity of their health care coverage.

Hospitals provide services free of charge to health care registrants if they produce their Alberta Health Care card or later telephone the hospital with their registration number. Patients from outside the Province must be billed for services provided. Hospitals do not confirm with the records of the Alberta Health Care Insurance Plan that the person receiving the service is actually registered at the time the service is provided.

In my 1989-90 annual report, I recommended that the Department consider changes in its systems and procedures to ensure that hospital services are provided free of charge only to patients who are registered with the Alberta Health Care Insurance Plan.

Recently, my staff reviewed hospital inpatient information submitted to the Department through the Health Medical Records Institute. Approximately 10% of the hospital records did not contain a valid registration number for those indicated as being Albertans. To the extent that services were provided to persons who were not registered, revenue may have been lost. By contrast, revenues recovered on behalf of non-Albertans who were provided health care services in the Province amount to approximately $73 million annually.

Since I made my original recommendation, the Department has apprised hospitals of their responsibility to identify billable patients.

However, I feel, it will not be possible for hospitals to adequately identify billable charges until they have the ability to check registration information directly.

The Department is planning to establish a hospital computer communication network which could be used to provide Alberta hospitals with the Department's registration information. However, the Department has not yet decided to provide hospitals with access to this information.

As my concern has not yet been resolved, in a management letter to the Deputy Minister at the conclusion of the audit, I again made the following recommendation:

> Department of Health - Verification of patient registration
>
> **Recommendation No. 40**
>
> It is recommended that the Department of Health establish a system that hospitals can use to verify whether patients are registered under the Alberta Health Care Insurance Plan.

Hospital surplus capital assets

Capital assets that are surplus to a hospital's needs are not being identified and disposed of in a manner that would yield the maximum value to the Province.

Under existing regulations, hospitals are required to remit to the Provincial Treasurer the disposal proceeds of capital assets acquired with Provincial grants.

Such a regulation provides no incentive for hospitals to identify equipment surplus to Provincial needs which could have disposal value. For example, an offer from an overseas buyer to purchase a hospital's surplus X ray equipment for approximately $450,000 lapsed because excessive time was taken to get the sale approved. As a result, there was a net loss of revenue to the Province. The equipment was scrapped after certain parts were removed to repair other equipment.

Unless hospitals are encouraged to expend effort and cost to realize the residual market values of equipment surplus to the Province's needs, it is unlikely that they will do so. Consequently, a source of funds is lost.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Department of Health - Hospital surplus capital assets

Recommendation No. 41

It is recommended that the Department of Health, in conjunction with the Department of Public Works, Supply and Services, encourage hospitals to identify surplus capital assets and to dispose of them in a manner beneficial to the Province.

Funding of capital equipment at hospitals

In my 1990-91 annual report (page 81), I recommended that the Department improve its systems for determining the equipment priorities of hospitals and how they can be funded.

The Department has taken the following action:

- An Equipment Funding Review Committee has been set up with representation from hospitals, the Alberta Healthcare Association, the Department and the Council of Teaching Hospitals of Alberta. The Committee's mandate is to review the process for planning, acquiring, and funding the equipment needed for acute care facilities.

- A directive was issued to hospitals requesting them to prepare a five year capital asset management plan.

- A process to assess high technology medical equipment, medical procedures and drugs is being established through a Provincial Health Technology Assessment Committee.

- The Department has also initiated other strategies for meeting the equipment needs of hospitals. For example, within a region, hospitals are asked to share equipment.

During future audits, I will monitor the success of these initiatives in improving the systems for cost-effective funding of hospital equipment.

Health Care Insurance Fund
year ended March 31, 1992

Health care payments

In my 1990-91 annual report (page 83), I recommended that the Department improve its systems in order to reduce inappropriate claim payments to practitioners and to recover amounts that are the responsibility of The Workers' Compensation Board.

I am pleased to report that the Department has made considerable progress in improving its systems. The Department plans to implement a new claims payment system by July 1993 which is expected to reduce inappropriate medical claim payments. Also, the Department is working with the Board to improve the method of identifying claim payments that should be recovered from the Board. At the next audit, my staff will review the Department's further progress in resolving my concerns.

Overpayments to practitioners and under-recoveries of claims from the Board for the year ended March 31, 1992, were estimated by the Department at $6.3 million.

Accounts receivable

Amounts are being shown in the financial statements as receivable even though they cannot yet be reasonably estimated. Therefore, collection is uncertain.

At March 31, 1992, the Department included $5 million in the financial statements of the Fund as receivable from The Workers' Compensation Board. The amount is the Department's estimate of additional medical claims for the year ended March 31, 1992, that are recoverable from the Board. However, the Board has declined responsibility for the payment of any amounts incurred prior to December 31, 1991.

Representatives from the Department and the Board are developing procedures to identify claims paid through the Fund which should be recovered from the Board. Since this process is not complete and the method of settlement has not been established, it was not possible to determine what amounts the Department would ultimately collect.

In a management letter to the Deputy Minister of Health at the conclusion of the audit, it was recommended that the Department only report amounts that can be reasonably estimated and for which collection is reasonably assured as accounts receivable of the Health Care Insurance Fund.

PROVINCIALLY-OWNED HOSPITALS

The Provincially-owned hospitals and their related foundations operate under the authority of the Provincial General Hospitals, Cancer Programs, University of Alberta Hospitals and University Hospitals Foundation Acts. The financial statements of these Provincial corporations are not included in the Public Accounts, nor are the entities reflected in the consolidated financial statements of the Province. The Minister of Health, who is charged with the administration of the above Acts, is required to table annually copies of the audited financial statements of these hospitals.

The Auditor General is the auditor of all Provincially-owned hospitals. The majority of the hospitals in the Province are not Provincially-owned and, therefore, are not audited by the Auditor General.

Alberta Children's Provincial General Hospital
year ended March 31, 1992

Alberta Children's Hospital Foundation

The Hospital is transferring some of its funds to the Alberta Children's Hospital Foundation in contravention of a condition in a ministerial exemption order directed to the Foundation. The Foundation is related to the Hospital and its objectives include fund raising for Hospital purposes.

Hospital foundations associated with Provincial general hospitals are normally governed by provisions in the Provincial General Hospitals Act. The Alberta Children's Hospital Foundation, however, is permitted to operate outside that Act by an exemption order made by the Minister of Health. It was a condition of the original exemption order issued in 1986 that no property be transferred from the Hospital to the Foundation. My 1989-90 report pointed out that the Hospital regularly transferred money to the Foundation in contravention of the 1986 order.

When I reported on this matter in my 1989-90 report, Hospital management indicated that changes to the Ministerial Order would address my concerns. Meanwhile, Hospital management continued to transfer money to the Foundation. On January 3, 1992, the Minister of Health replaced the 1986 exemption order but changed the condition so that the Foundation may receive from the Hospital money donated to the Hospital, but only with the prior, written approval of the Minister. To date, no ministerial approval has been given pursuant to the condition in the new Ministerial Order and the Foundation has, since the new Order was issued, continued to

receive money from the Hospital without the prior, written consent of the Minister in contravention of the condition.

In a management letter to the President of the Hospital at the conclusion of the audit, it was recommended that the Hospital comply with the requirement that property only be transferred to the Alberta Children's Hospital Foundation with the prior, written approval of the Minister.

Alberta Children's Hospital Research Centre

Payments by the Alberta Children's Hospital Research Centre to the Hospital for supplies and services are not based on the value transferred. The Centre is related to the Hospital and its objectives include assisting in research associated with the medical care of children.

There is no operating agreement between the Hospital and the Centre. Charges to the Centre by the Hospital for supplies and services are based on the availability of surplus funds at the Centre rather than the reimbursement of the Hospital's costs. Furthermore, in the absence of an operating agreement, there is no expression of the Hospital's expectations of the Centre in terms of research results and the use of resources provided.

In a management letter to the President of the Hospital at the conclusion of the audit, it was recommended that the Hospital allocate costs incurred on behalf of the Alberta Children's Hospital Research Centre on the basis of the value of supplies and services provided to the Centre.

Alberta Hospital Edmonton
year ended March 31, 1992

Financial management

Internal control is not operating effectively. Significant findings during the financial audit were as follows:

- A planning grant for $242,959 received from the Department of Public Works, Supply and Services in 1990-91 was deposited in a bank account that was not recorded in the Hospital's general ledger, nor included in the Hospital's 1990-91 financial statements. The Hospital's 1991-92 financial statements include a restatement of the prior year to correct the omission.

- Several amounts, totalling $157,000, were reported as accounts payable but were not liabilities of the Hospital. These amounts should have been included in the appropriate fund balance of the Hospital.

- Accounts receivable and payable sub-ledgers were not reconciled with the general ledger during the year.

- Procedures to review and authorize payroll computer system transactions needed to be improved. Also, the Hospital needed to determine which of the many computer-produced reports were actually required to control payroll transactions.

- Access to the mainframe computer system had not been restricted to authorized staff.

- Off-site back-up of financial and non-financial computer information had not been established.

In a management letter to the President of the Hospital at the conclusion of the audit, it was recommended that the Hospital improve its accounting controls, computer controls and financial reporting practices.

Computer system

In my 1990-91 annual report (page 85), I reported that the Hospital's management of the development and implementation of the new computer system was weak. Responsibility had not been assigned for providing project direction, for approving project plans, for monitoring progress and project costs, and for ensuring the realization of expected benefits. The Hospital's Information Systems Steering Committee was not fully operational and its terms of reference did not address project management issues. Furthermore, budgets and work plans for Hospital staff involved in the project had not been established.

The Hospital has satisfactorily dealt with my concern. The Information Systems Steering Committee now manages the project. Also, working committees, with clear mandates, budgets and work plans, have been set up. This action should assist the Hospital in the implementation of its new computer system.

Foundations

My reports on the financial statements of the following Foundations for the year ended March 31, 1992, contained reservations of opinion because, as explained on page 160 of this report, the Foundations receive donation revenue which is not susceptible of complete audit verification:

Alberta Cancer Foundation
Alberta Hospital Edmonton Foundation
Charles Camsell Provincial General Hospital Foundation
Children's Health Foundation of Northern Alberta
University Hospitals Foundation

Other entities

Financial audits of the following were completed for the year ended March 31, 1992:

Alberta Cancer Board
Alberta Hospital Ponoka
Charles Camsell Provincial General Hospital
Children's Health Centre of Northern Alberta
Edmonton Region Health Facilities Planning Council
Foothills Provincial General Hospital
Glenrose Rehabilitation Hospital
University Hospitals Board, and

Calgary Area Hospital Advisory Council Fund
- for the period ended July 20, 1992

Department of Labour
year ended March 31, 1992

In addition to the annual financial audit, my staff completed an examination of the systems used by the Department to fulfil its electrical safety responsibilities.

Long Term Disability Benefit Funds
year ended March 31, 1992

The Province's Personnel Administration Office administers two long-term disability benefit funds. With some exceptions, one fund is for management employees, and the other is for non-management employees. The Personnel Administration Office is responsible for ensuring that long-term disability premiums are calculated and deducted correctly by the Treasury Department's central payroll system, and deposited into the funds. It is also responsible for the payment of benefits from the funds to employees who are unable to work due to long-term illness or injury.

Incorrect premiums

Failure to comply with regulations and management directives resulted in premiums being calculated incorrectly in the Province's central payroll system.

The Personnel Administration Office's control procedures did not detect a number of cases where the method of calculating disability premiums was inconsistent with regulations or related management directives. These errors were of three general types.

The first type of error was caused by calculating premiums for management staff before completion of their initial three month term of service. These errors resulted in overcharges to the employing departments totalling approximately $16,500.

The second group of errors occurred because a certain type of salary payment was omitted from the premium calculations. These errors resulted in undercharges to the employing departments totalling $7,350.

The final group of errors was caused by charging premiums for employees who were on leave of absence. These errors resulted in the collection of approximately $16,000 of excess premiums, half from the employing departments and half from the employees. These latter errors affected a large number of employees, but were individually small in amount.

In a management letter to the Public Service Commissioner at the conclusion of the audit, it was recommended that calculations of long-term disability benefit premiums be reviewed periodically to ensure that they are in compliance with the legislation and related management directives.

Over-payments of benefits

Long-term disability benefits were overpaid because information provided by employing departments was incomplete.

Regulations require entitlements paid by The Workers' Compensation Board to be deducted when calculating long-term disability benefits. The Personnel Administration Office relies on the employing departments to notify it about these entitlements.

Audit tests to determine if entitlements, according to the Board's records, had been deducted from long-term disability benefit payments revealed two entitlements that had not been deducted. As a result, approximately $12,000 must now be reclaimed from long-term disability recipients. In both cases, the employing departments were aware of the entitlements but had not reported them to the Personnel Administration Office.

In a management letter to the Public Service Commissioner at the conclusion of the audit, it was recommended that the Personnel Administration Office obtain information about entitlements paid directly from The Workers' Compensation Board.

Other entity:

A financial audit was also completed of the **Personnel Administration Office Revolving Fund** for the year ended March 31, 1992.

Department of Municipal Affairs
year ended March 31, 1992

In addition to the annual financial audit, my staff completed an examination of the management and financial controls used to administer grants paid to municipalities under the Alberta Partnership Transfer Program and to provide housing under the Rural Emergency Home Program.

Alberta Mortgage and Housing Corporation
year ended March 31, 1992

In addition to the annual financial audit, the following work was completed:

- An audit of the financial statements of the subsidiary corporation, Mortgage Properties Inc., for the year ended March 31, 1992.

- Audits of the 1991-92 cost-sharing claims under the National Housing Act (Canada) for non-profit housing, rent supplement, and rural and native housing - home-ownership and rental programs.

Housing information systems

In my 1990-91 annual report (page 90), I recommended that the Corporation improve the systems used to provide information needed to manage its housing programs, and eliminate the inefficiencies in these systems. I reported that the systems used by the Corporation to manage its housing program assets were inefficient, did not identify all program assets or did not provide sufficient information for the control and physical inspection of such assets.

In reply, the Corporation has stated that the responsibility for the administration of social housing programs has been transferred to the Department of Municipal Affairs and that a review of related computer systems has been performed. The Corporation also stated that an overall needs analysis is being completed, that work on the selection and development of a property management system has started, and that a new property management system will be implemented in 1993-94.

The new property management system will be reviewed during future audits.

Mortgage Properties Inc.

Allegations of "conflict of interest, patronage and tendering irregularities" were reported to me late in the year and, therefore, it was not possible to complete my review in time for this report. Any matters arising from this review will be reported to management and significant matters, if any, will be included in my next annual report to the Legislative Assembly.

Other entities

Financial audits of the following were also completed:

Alberta Planning Fund - year ended March 31, 1992
Improvement Districts' Trust Account
- year ended December 31, 1991
Special Areas Trust Account - year ended December 31, 1991

Department of Public Works, Supply and Services
year ended March 31, 1992

None of the matters reported to management at the conclusion of the Department's annual financial audit were selected for inclusion in this report.

Other entity

A financial audit of the **Public Works, Supply and Services Revolving Fund** was also completed for the year ended March 31, 1992.

Department of the Solicitor General
year ended March 31, 1992

In addition to the annual financial audit, my staff completed an examination of the work done by the Department's Internal Audit and Program Evaluation Branch.

Other entities

Financial audits of the following were also completed:

Alberta Liquor Control Board - year ended January 7, 1992
Joint Standards Directorate - year ended March 31, 1992
Motor Vehicle Accident Claims Fund
- year ended March 31, 1992
Victims' Programs Assistance Fund - year ended March 31, 1992

Department of Technology, Research and Telecommunications
year ended March 31, 1992

None of the matters reported to management at the conclusion of the Department's annual financial audit were selected for inclusion in this report.

Alberta Heritage Foundation for Medical Research
year ended March 31, 1992

In addition to the annual financial audit, the following work was completed:

- An audit of the financial statements of the Medical Innovation Program for the year ended March 31, 1992, and the Foundation's compliance with the terms of the agreement under which it administers the Program.

- A limited examination of the systems used to select researchers to be funded by the Foundation.

- An examination of the systems used to monitor the activities of the researchers financed by the Foundation, and the assurance obtained that award monies are spent appropriately.

The Alberta Heritage Foundation for Medical Research provides financial support for medical research in Alberta. The Foundation's funding comes from income earned by an endowment from the Alberta Heritage Savings Trust Fund. The systems used by the Foundation to select researchers, and to monitor the quality of research performed are operating satisfactorily. There is scope, however, for improving the systems used to determine whether certain grants to researchers are being spent appropriately.

Monitoring grant expenditures

There are weaknesses in the procedures used to monitor whether certain grants are being expended for approved purposes, and within agreed time-frames.

Most of the Foundation's research grants support the work of researchers at the University of Alberta and the University of Calgary. The universities hold the monies and disburse them as and when the researchers incur the expenditures. The Foundation relies, to a large extent, on the universities to ensure that the funds are spent only for the purposes, and within the time-frames stipulated in the grant agreements.

It appears, however, that this reliance is misplaced. The University of Alberta has not been checking that the equipment purchased by the researchers is the equipment specified in the five year plan approved by the Foundation. As well, major equipment items are sometimes purchased at times that are inconsistent with the program of research outlined in the five year plan, yet neither the University nor the Foundation has investigated why.

Similarly, better monitoring is needed by the Foundation of the $600,000 advanced in each of the past three years to the two universities under its travel and visiting lecturer grant program. Under this program, the universities are responsible for deciding who receives the awards, and for reporting to the Foundation the amounts expended during each fiscal year. Any unexpended monies are retained by the universities, to be used to make awards during the following year.

During the last three years, the Foundation appears to have provided more funds than were needed by the universities. As a result, at the end of the 1991-92 fiscal year the universities had unspent amounts totalling $355,000.

In a management letter to the Foundation's President at the conclusion of the audit, it was recommended that the Foundation determine the information needed to monitor expenditures from research grants, and agree how responsibility for such monitoring should be shared with the universities. It was also recommended that the Foundation evaluate whether an appropriate level of funding is being provided for the travel and visiting lecturer grant program.

Representatives of the Foundation and the universities have since met to discuss these concerns, and have started to develop new monitoring and reporting mechanisms.

Alberta Research Council
year ended March 31, 1992

Budget preparation and budgetary control

Research departments need guidance on budget preparation and more timely information to monitor their project expenditures.

The Research Council has a number of research departments, each of which is responsible for preparing and controlling its own budget. Annually, the departments submit their budgets to the central Financial Services department for consolidation and approval by the Council. Each month, Financial Services provides the research departments with financial information to help them monitor actual results against approved budgets.

The budget consolidation process is too time-consuming. The problem stems from a lack of guidance to help the departments develop their annual budgets in an appropriate and consistent format. In the absence of guidance, the budgets are submitted in a variety of formats and using different computer applications. As a result, Financial Services spends considerable time and effort analyzing and re-working the information to a format suitable for approval and consolidation.

Financial Services is not providing research departments with monthly financial information promptly. This reduces the value of the information for cost and budgetary control purposes, and delays billings to project sponsors.

In a management letter to the Research Council's President at the conclusion of the audit, it was recommended that budgeting processes be reviewed, and that the necessary policies, guidelines and standard budget formats be developed. It was also recommended that the needs of research departments for financial information be re-evaluated, and that systems be amended to meet those needs.

The Research Council has indicated that changes are being made to improve budget preparation and budgetary control.

NovAtel Communications Ltd.
year ended December 31, 1991

Special review

In addition to the annual financial audit, my staff completed a special review of NovAtel's history and financial affairs. The review was conducted pursuant to a request from the Executive Council, under Section 17(2) of the Auditor General Act.

On September 25, 1992, my report on NovAtel Communications Ltd. was made public. The loss to the Province resulting from NovAtel was estimated to be in a range from $544 million to $614 million. The report dealt with what I considered to be the key events, decisions and other matters pertaining to NovAtel from its inception in 1983 to the government's divestiture of the company in May of 1992.

I have integrated my NovAtel recommendations with other recommendations addressed to the Executive Council on page 13.

Reservation of opinion

My Auditor's Report on the financial statements of NovAtel Communications Ltd. for the year ended December 31, 1991, was dated June 19, 1992. It contained a reservation of opinion because I was unable to obtain the necessary information from the new owners and management to determine whether the financial statements required disclosure of the risk that the Company would be unable to continue as a going concern and to realize its assets at their book value.

Other entities

Financial audits of the following were also completed:

Chembiomed Ltd. - year ended March 31, 1991
The Alberta Educational Communications Corporation
- year ended March 31, 1992
The Alberta Government Telephones Commission
- year ended December 31, 1991

Department of Tourism, Parks and Recreation
year ended March 31, 1992

During 1991-92, the former Department of Tourism and the former Department of Recreation and Parks were combined to create the Department of Tourism, Parks and Recreation.

None of the matters reported to management at the conclusion of the Department's annual audit were selected for inclusion in this report.

Marketing activities, long-term objectives

In my 1990-91 annual report (page 101), I reported that the Department of Tourism had set and published long-term objectives, but had not developed a strategic plan for the achievement of those objectives. I recommended that the Department develop such a plan.

The Department of Tourism, Parks and Recreation has since informed me that its next long-term plan will include targets to the year 2000, and strategies for achieving them. Future audits will examine the new plan, and the procedures used to develop it.

Grant Programs

In my 1990-91 annual report (page 95), I recommended that the Department of Recreation and Parks improve the management information used to allocate funds available under the Community Recreation and Cultural and the Municipal Recreation and Tourism Areas grant programs.

During this year's audit, the Department of Tourism, Parks and Recreation indicated that it would give careful consideration to incorporating the recommendation into its grant programs. Accordingly, the recommendation is not repeated.

The Recreation, Parks and Wildlife Foundation
year ended March 31, 1992

Pre-signing blank cheques

A control to ensure that payments made by the Foundation were appropriately authorized was being circumvented.

The Foundation has a management control over cash disbursements which requires two authorized individuals to review and approve supporting documentation before they sign the cheques.

The requirement of having two signatures is to ensure that cash disbursements are appropriate, and to prevent misappropriation of funds. However, this control was not consistently applied. My staff noted that over fifty blank cheques had been pre-signed by one

signatory, effectively negating the control. Management stated that these cheques were pre-signed for administrative convenience.

This fundamental control should not be circumvented for administrative convenience. Compromising this control increases the risk of inappropriate expenditures, and the possibility of a misappropriation of bank funds. The potential risk of misappropriation of bank funds is particularly significant because there is no maximum dollar limit on the amount of a cheque that the bank will cash. The balance in this account at March 31, 1992, amounted to $3,800,000.

In a management letter to the Chairman it was recommended that the Foundation improve controls over expenditures and the bank account.

Non-Compliance with legislation

The Foundation continues to make payments to members in contravention of the Recreation, Parks and Wildlife Act.

In my 1987-88 annual report (page 53), I first reported that payments for travelling expenses, subsistence and remuneration were made from the Foundation's funds to members of the Foundation's Board, in contravention of its Act.

This recommendation has been repeated each subsequent year, and the Foundation continues to make payments that are not in compliance with its legislation. The Act specifically prohibits the payments that are being made.

Since I first reported this matter, the total amount paid in contravention of the Act is approximately $275,000, including $55,000 in 1991-92. Continual disregard by the Board of its legislation is a matter of serious concern. In the event that legislation is not amended in the near future, the Board should stop making these payments to its members.

In a management letter to the Foundation's Chairman at the conclusion of the audit, I again made the following recommendation:

The Recreation, Parks and Wildlife Foundation
- Non-compliance with legislation

Recommendation No. 42

It is recommended that The Recreation, Parks and Wildlife Foundation comply with the legislative requirements of the Recreation, Parks and Wildlife Act regarding payments to its members.

I have again been advised by the Chairman that the Minister has been notified of the problem and that the Foundation anticipates that appropriate changes will be made.

Alberta Wildlife Park Foundation
period ended October 4, 1991

Reservation of opinion

My Auditor's Report on the financial statements of the Alberta Wildlife Park Foundation for the six month period ended October 4, 1991 contained a reservation of opinion.

One reason for the reservation was because I was unable to audit miscellaneous revenue and sales of surplus animal stock for completeness. The other reason for the reservation was because management of the Foundation for the period covered by the financial statements was not willing to provide me with signed representations concerning the accuracy and completeness of the financial statements. Generally accepted auditing standards require such representations to be obtained on each financial statement audit.

Other entities

Financial audits of the following were also completed for the year ended March 31, 1992:

Alberta Sport Council
Recreation and Parks Revolving Fund
Tourism Education Fund
Tourism Revolving Fund

Department of Transportation and Utilities
year ended March 31, 1992

In addition to the annual financial audit, the following work was completed:

- An examination of the systems used by the Department to manage the development of computer systems.

- An examination of the systems used by the Department to manage its inventories of gravel, land, materials and supplies.

Computer system development budgets

The Department's computer system development budgets are not being estimated on a reasonable basis.

The Department is investing approximately $5 million annually in computer system development. During the year, 11 major systems were being developed. System development begins after the scope of a system and its budget are approved.

Approved computer system development budgets are not always based on an analysis of requirements. Budget amounts are not supported by reasoned estimates. Also, subsequent changes to a system's scope do not result in an updated version of the budget.

Modifications to the original system's scope are required when additional needs are identified. These changes in system requirements are presented for management approval. The Department has indicated that it does consider the cost-benefit relationship of scope changes, but the cost-benefit is not quantified. Furthermore, the Department lacks a process to identify whether anticipated benefits from a new computer system are realized when the system is operational.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

> Department of Transportation and Utilities - Computer system development budgets
>
> **Recommendation No. 43**
>
> It is recommended that the Department of Transportation and Utilities improve its estimates of cost and benefit relationships for new computer systems.

Computer system development costs

The Department does not have adequate cost information to control computer system development costs.

The Department accounts for system development costs on an annual basis. Information on each system's total cost, where the development life-cycle is more than one fiscal year, is not maintained. As a result, useful cost information is not readily available. The Department's Information Systems Branch and the user areas maintain certain project cost information but this information is not complete.

Total development costs are required if the Department is to properly control system development costs.

In a management letter to the Deputy Minister it was recommended that the Department improve the management information used to control computer system development costs.

Gravel acquisitions

The Department has accumulated a large inventory of gravel without evidence of its need.

At March 31, 1992, the Department had a gravel inventory of at least $20 million. Approximately $3.5 million of gravel inventory acquired during the year ended March 31, 1991, remained unused at March 31, 1992.

As gravel is only available in certain locations, decisions have to be made about stockpiles for future use. However, the Department does not have a system to assess future amounts required and when such amounts should be accumulated. Without such an assessment, the Department is unable to determine whether its investment in gravel inventories is excessive and whether these inventories are at the appropriate locations.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Department of Transportation and Utilities - Gravel acquisitions

Recommendation No. 44

It is recommended that the Department of Transportation and Utilities ascertain whether all gravel acquisitions are based on identified needs.

Materials and supplies management

Information to determine the quantities and locations of materials and supplies inventories purchased by the Department, other than through the Revolving Fund, is not available.

In addition to the Revolving Fund, the Department separately maintains inventories of materials and supplies used for repair of fleet equipment and for maintenance and construction of roads and bridges.

The Department estimates that these inventories, which are held at regional maintenance yards, cost between $3 and $6 million. However, this estimate does not include materials purchased for use on specific projects and for use by the bridge maintenance unit.

Lack of management information may result risks of excessive and inappropriately located inventories or in losses from theft, obsolescence and spoilage. The Department should assess the cost-effectiveness of implementing a system to control these risks.

In a management letter to the Deputy Minister it was recommended that the Department implement a cost-effective inventory management system to control these materials and supplies inventories.

Transportation Revolving Fund

year ended March 31, 1992

In addition to the annual financial audit, my staff completed an examination of the function of the Transportation Revolving Fund in the acquisition of materials and supplies.

Use of a revolving fund

It appears that the purpose of the Revolving Fund's purchasing and inventory functions is not clear.

The Department operates the Transportation Revolving Fund to purchase certain goods and services and to maintain an inventory for its future needs.

The Department paid $39 million in 1991-92 for construction, maintenance and other materials (excluding asphalt, gravel and land). These purchases included supplies and materials bought directly from external vendors as well as through the Revolving Fund. Procurement through the Revolving Fund was $14 million.

My staff noted that certain items available from the Revolving Fund inventory were being acquired directly from external sources. It was noted that certain of these purchases were made from the same vendors used by the Revolving Fund.

The Department should assess whether it is cost-effective to use the Transportation Revolving Fund for the management of its supplies and materials inventories.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

> Department of Transportation and Utilities - Use of a revolving fund
>
> **Recommendation No. 45**
>
> It is recommended that the Department of Transportation and Utilities determine whether the Transportation Revolving Fund meets the Department's needs for the procurement of supplies and materials.

Other entities

Financial audits of the following were also completed:

Alberta Resources Railway Corporation
- year ended December 31, 1991

Gas Alberta Operating Fund - year ended March 31, 1992
Natural Gas Rebates Fund - year ended March 31, 1992
Rural Electrification Revolving Fund
- year ended March 31, 1992

Legislative Assembly Office
year ended March 31, 1992

None of the matters reported to management at the conclusion of the annual financial audit were selected for inclusion in this report.

Other entities

Financial audits of the following were also completed for the year ended March 31, 1992:

Office of the Chief Electoral Officer
Office of the Ombudsman

The financial statement of the **Office of the Auditor General** for the year ended March 31, 1992, was audited by a firm of Chartered Accountants appointed by the Standing Committee on Legislative Offices. The financial statement is published in section 8 of the Public Accounts of the Province.

The irrigation districts are independently incorporated with no direct accountability to the Legislative Assembly. Therefore, their audited financial statements are not published in the Public Accounts of the Province.

The financial statements of the fourteen irrigation districts were audited to various year-ends within the 1991-92 fiscal year:

Aetna Irrigation District
Bow River Irrigation District
Eastern Irrigation District
Leavitt Irrigation District
Lethbridge Northern Irrigation District
Macleod Irrigation District
Magrath Irrigation District
Mountain View Irrigation District
Raymond Irrigation District
Ross Creek Irrigation District
St. Mary River Irrigation District
Taber Irrigation District
United Irrigation District
Western Irrigation District

Pursuant to section 12(b) of the Auditor General Act, the Auditor General may, with the approval of the Standing Committee on Legislative Offices, be appointed auditor of organizations other than Provincial departments, funds and agencies. For accounting periods ended within the 1991-92 fiscal year, the Auditor General acted as auditor of the following organizations:

ACCESS Charitable Foundation of Alberta
Alberta Children's Hospital Research Centre
Charles Camsell Provincial General Hospital Volunteer Association
Foothills Hospital Employees' Charity Fund
Foothills Hospital Foundation
Glenrose Rehabilitation Hospital Employee Benevolent Fund
Glenrose Rehabilitation Hospital Employee Charities Fund
Grande Prairie Regional College Foundation
Olds College Foundation
Sulphur Development Institute of Canada (SUDIC)
The Friends of University Hospitals
The Trustees of the Academic Staff Benefits Plans of The University of Alberta
University of Alberta Hospitals Staff Benevolent Fund
University of Alberta Hospitals Staff Charities Fund

Financial statements

My reports on the financial statements of:

Grande Prairie Regional College Foundation, and
Olds College Foundation

contained reservations of opinion because, as explained on page 160 of this report, they receive donation revenue which is not susceptible of complete audit verification.

Reporting process

The audit observations and recommendations contained in this report have undergone a rigorous process aimed at providing all concerned with opportunities to challenge or provide input.

At the conclusion of all audits, meetings (exit conferences) were held to discuss audit findings and concerns. The matters discussed depended on the nature of the audit, but included typically the form and content of financial statements, valuation provisions and allowances, the accounting policies employed, recommendations for systems improvements, and observed instances of non-compliance with legislative authorities. These meetings were attended by representatives of the Audit Office and senior financial and other management officials of the audited entities.

The main purposes of these meetings were to ensure that senior management understood the audit findings, to discuss recommendations for corrective action, and to provide opportunities for management comment and reaction before the audited financial statements and the letter to management were issued. Minutes of these meetings were prepared and circulated by the Audit Office, thereby minimizing the risk of misunderstandings concerning observations raised and action promised.

Audit observations and recommendations judged to be of concern to senior management were incorporated into management letters to the responsible deputy minister or senior executive officer. Copies of management letters were forwarded to the appropriate minister, except for those addressed to Provincial agencies referred to in section 2(5) of the Financial Administration Act.

Subsequently, the observations and recommendations considered important enough to be reported to the Legislative Assembly were selected for inclusion in this report. When determining significance, I take into account the nature and materiality of the matter relative to the individual entity and the government as a whole.

Finally, before this annual report was published it was made available to the Audit Committee, and all ministers and deputy ministers or chief executive officers were informed of observations contained in the report that relate to areas for which they are responsible.

The Provincial Treasurer on behalf of the government has prepared a report, dated December 1992, addressed to the Standing Committee on Public Accounts which contains responses to the numbered recommendations in my report for the 1990-91 fiscal year.

Reservations in audit reports on financial statements

Section 19(2) of the Auditor General Act requires the Auditor General to provide details in his annual report of reservations of opinion in reports issued on financial statements. This report shows that twelve such reservations were issued; viz:

Eight reservations of opinion were because the financial statements of:

- Alberta Cancer Foundation,
- Alberta Hospital Edmonton Foundation,
- Charles Camsell Provincial General Hospital Foundation,
- Children's Health Foundation of Northern Alberta,
- Glenbow-Alberta Institute,
- Grande Prairie Regional College Foundation,
- Olds College Foundation, and
- University Hospitals Foundation

include donation revenue which could not be audited for completeness in accordance with generally accepted auditing standards.

One reservation of opinion was because the financial statements of the Alberta Heritage Savings Trust Fund are not prepared in accordance with acceptable accounting principles. As discussed more fully on page 41, the practice of including deemed assets, and deemed equity represented by deemed assets, on the Heritage Fund's balance sheet is not appropriate, nor is the presentation in accordance with generally accepted accounting principles. Deemed assets are not assets of the Heritage Fund.

One reservation of opinion was because, as discussed more fully on page 64, the financial statements of Lethbridge Community College did not record a liability and a related charge for early retirement costs.

One reservation of opinion was because, as discussed more fully on page 147, the financial statements of the Alberta Wildlife Park Foundation included revenue which could not be audited for completeness. Also, management was not willing to provide me with certain representations needed for audit purposes.

One reservation of opinion was because, as discussed more fully on page 144, I was unable to determine whether the financial statements of NovAtel Communications Ltd. should disclose the risk that the Company would be unable to continue as a going concern.

In all other cases, I was able to report without reservation that the financial statements examined present fairly the financial position of the entities at March 31, 1992, June 30, 1992, July 31, 1992, or other accounting periods ending within the year ended March 31, 1992, and the results of their operations and the changes in their financial position for the period covered by the statements, in accordance with generally accepted accounting principles or other appropriate disclosed basis of accounting.

Section 18 Report

Section 18 of the Auditor General Act requires that I report to the Legislative Assembly on the financial statements of the Crown for each fiscal year. The report is to include an opinion on the financial statements, and a statement as to whether they are on a basis consistent with that of the preceding fiscal year. Also, I am to provide my reasons for giving any reservation of opinion, and any other comments related to my audit of the financial statements.

Opinion on the financial statements

My Auditor's Report to the Members of the Legislative Assembly on the financial statements of the Crown for the year ended March 31, 1992, is attached to the consolidated financial statements and reads:

I have audited the consolidated statement of reported assets, liabilities and net debt of the Province of Alberta as at March 31, 1992 and the consolidated statements of revenue and expenditure and changes in financial position for the year then ended. These financial statements are the responsibility of Treasury Department management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Province of Alberta as at March 31, 1992 and the results of its operations and the changes in its financial position for the year then ended in accordance with the disclosed basis of accounting as described in Note 1 to the consolidated financial statements. As required by the Auditor General Act, I report that, in my opinion, this basis is consistent with that applied in the preceding year.

Donald D. Salmon, FCA
Auditor General

Edmonton, Alberta
November 6, 1992, except as to
Note 2 which is
as of December 14, 1992

Audit of the Public Accounts

The Public Accounts of the Province are published in one volume. The volume contains the consolidated financial statements of the Province of Alberta, the financial statements of the General Revenue Fund, details of expenditures and revenues by department, and the financial statements of revolving funds, regulated funds and Provincial agencies. Some other statements and reports are included to comply with the Financial Administration Act and other statutes.

The above section 18 Auditor's Report covers the consolidated financial statements of the Province. A similar Auditor's Report was issued (see section 2 of the Public Accounts) on the financial statements of the General Revenue Fund and the detailed information of departmental expenditures and revenues (see section 3 of the Public Accounts). The volume of supplementary information containing details of expenditure by payee is not covered by these reports since it is not an integral part of the Public Accounts.

The section 18 Auditor's Report is the culmination of most of the financial audit work done each year by the Audit Office. It covers the 1991-92 audits of the various consolidated entities. These include the General Revenue Fund, the Alberta Heritage Savings Trust Fund and approximately 100 Provincial agencies and other funds.

Additionally, the Audit Office performs annual audits of the universities, colleges, technical institutes, hospitals, irrigation districts and trust funds of which the Auditor General is auditor.

Consolidation methods

The consolidated financial statements of the Province are an aggregation of most, but not all, of the entities administered and owned by the Province of Alberta. They combine the operating results and financial positions of the Province's General Revenue Fund, the Alberta Heritage Savings Trust Fund and the other entities whose financial statements are published in sections 4 through 7 of the Public Accounts.

The consolidation, however, does not include the Provincially-owned universities, colleges, technical institutes, hospitals and related funds.

The 1991-92 consolidated financial statements published by the Province report on its financial condition and results of operations. They serve as a principal means of communicating financial

information to those not involved in the Province's financial administration.

The financial statements of the General Revenue Fund are sometimes inappropriately used for reviewing the Province's overall financial condition and operating results. Therefore, my Auditor's Report on the General Revenue Fund financial statements for the year ended March 31, 1992 begins as follows:

"The accompanying financial statements have been prepared to meet the requirements of the Financial Administration Act, and to present the Province's results in relation to its budget for the year ended March 31, 1992. The basis of accounting used in the preparation of these financial statements varies from generally accepted accounting principles. Significant financial activities of the government occur outside the General Revenue Fund. Most of these activities together with those of the General Revenue Fund are included in the consolidated financial statements of the Province. For this reason, the consolidated financial statements provide a more comprehensive accounting of the financial position and results of government operations."

In addition, Note 4 to the General Revenue Fund financial statements points out that the Fund does not include deficits incurred by Provincial agencies, regulated funds and commercial enterprises.

The Public Sector Accounting and Auditing Committee of the Canadian Institute of Chartered Accountants, known as PSAAC, is working to improve public sector financial reporting practices. Work is underway on the first in a series of projects to recommend how governments should account for their capital expenditures and physical properties. The project will define expenditures for capital purposes, various types of physical property, and other basic concepts.

The consolidated financial statements show that for the 1991-92 fiscal year, the Province recorded a consolidated net expenditure, that is an annual deficit, of $2,629 million (1990-91 $1,832 million). They also show that at March 31, 1992, the consolidated net debt (accumulated deficit) of the Province was $2,165 million (March 31, 1991 consolidated net assets (surplus) $464 million).

The consolidation does not include the assets and liabilities of the Provincially-owned universities, colleges, technical institutes, and hospitals. If the recorded net assets (excluding capital assets) of these entities were included in the consolidation, the Province's accumulated deficit at March 31, 1992, would be decreased by

approximately $180 million. In my view, which PSAAC supports, these entities should be included in the consolidation.

In addition, most of the Province's capital assets are excluded from the consolidation. This means that the accumulated deficit at March 31, 1992, could be reduced by the value of land (except that held for rental and resale), buildings, equipment, fixtures and furniture owned by the Province. Similarly, the accumulated deficit is not reduced for the value of inventories of consumable supplies and materials. The effect of these accounting policies is that the costs of capital assets and consumable inventories are treated as expenditures in the fiscal years in which they are acquired, rather than in the years in which they are consumed.

Consolidated operating statistics

The Province's consolidated operating results for the three years ended March 31, 1992 were as follows:

	1989-90	1990-91	1991-92
		(Millions of Dollars)	
Revenue	$12,119	$13,379	$12,841
Expenditure	14,235	15,211	15,470
Annual deficit	(2,116)	(1,832)	(2,629)
Surplus at beginning of year	4,412	2,296	464
Surplus (accumulated deficit) at end of year	$ 2,296	$ 464	$ (2,165)

Consolidated revenue comprises:

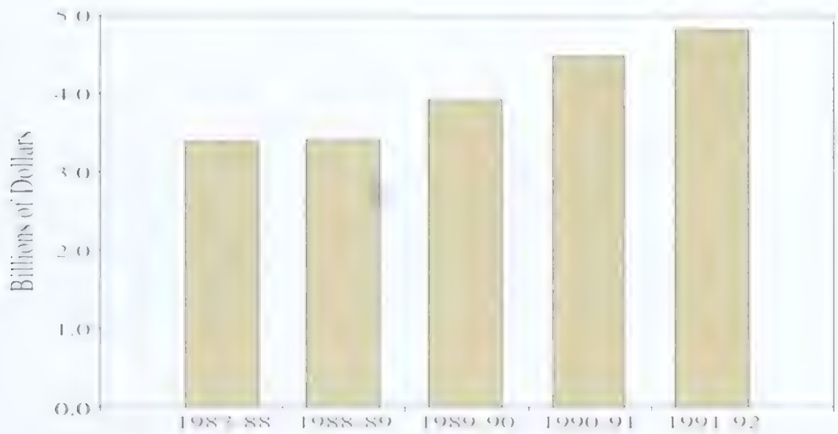
	1989-90	1990-91	1991-92
Taxes	$ 3,919	$ 4,476	$ 4,817
Investment income	1,891	2,125	2,155
Payments from Government of Canada	1,887	2,302	2,086
Non-renewable resource revenue	2,240	2,688	2,022
Fees, permits and licences	720	789	935
Net profits from commercial operations	391	92	7
Other	1,071	907	819
	$12,119	$13,379	$12,841

The following table lists the proportions in which these revenue categories contribute to consolidated revenue:

	1989-90	1990-91	1991-92
	%	%	%
Taxes	32	33	38
Investment income	16	16	17
Payments from Government of Canada	16	17	16
Non-renewable resource revenue	18	20	16
Fees, permits and licences	6	6	7
Net profits from commercial operations	3	1	0
Other	9	7	6
	100	100	100

The following charts and comments illustrate and explain some of the more significant variances and trends in the Province's consolidated revenue during the five years ended March 31, 1992:

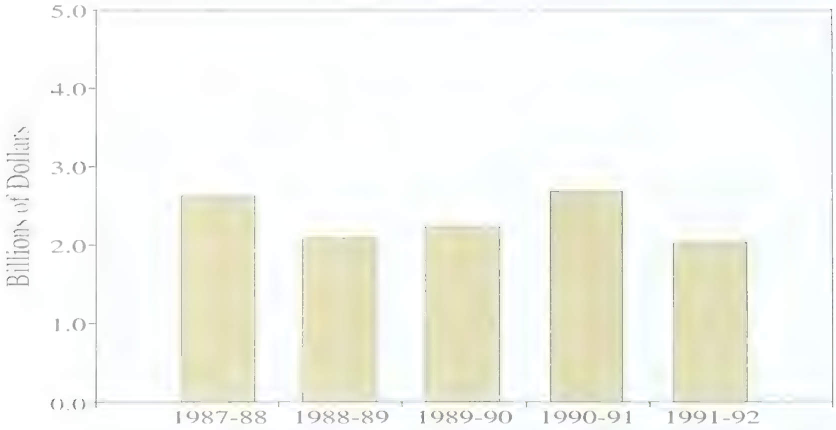
Taxes



Tax revenue increased by $341 million or 7.6% in 1991-92 compared to the previous year.

The 1991-92 increase resulted from a $261 million increase in personal income tax, a $73 million decrease in corporate income tax, a $91 million increase in fuel tax and an increase of $47 million in tobacco tax. The increase in fuel and tobacco taxes was due to rate increases.

Non-Renewable Resource Revenue



Non-renewable resource revenue decreased by $666 million or 24.8% in 1991-92 compared to the previous year. The main reasons for the 1991-92 decrease were:

- crude oil royalty decreased by $288 million. This decrease was due to an average oil price decrease of $3.74 US per barrel as compared to the previous year, and a stronger Canadian dollar.

- natural gas and by-products royalty decreased by $241 million. This decrease was mainly due to a drop in the natural gas price of $0.22 per thousand cubic feet.

- bonuses and sales of crown leases decreased by $154 million. The decrease was due to a reduction of $49 in the average bid price per hectare, and a decrease in the number of licenses and leases sold.

Payments from the Government of Canada

Payments from the Government of Canada decreased by $216 million or 9.4% in 1991-92 compared to the previous year. The main reasons for the 1991-92 change were:

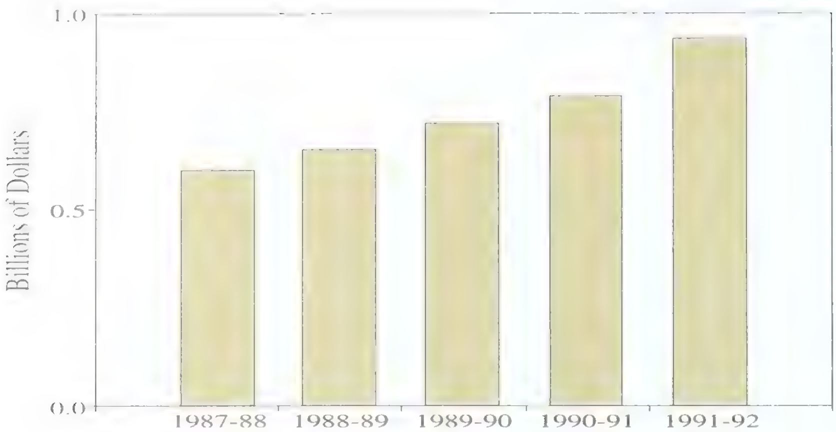
- $344 million in stabilization payments were recorded in 1991, whereas no amounts were recorded in 1992. The 1990-91 amount related to the final payments for Alberta's claim of $539 million for fiscal stabilization for the 1986-87 fiscal year.

- $89 million of Canada/Alberta 1990 Farm Income Assistance program payments, which was a one year program, were received in 1990-91.

- a net increase of $159 million for crop insurance. The revenue protection program introduced in 1991-92 resulted in an increase in payments of $174 million.

- a $66 million increase in Canada Assistance Plan payments.

Fees, Permits and Licences



Revenue from fees, permits and licences increased by $146 million or 18.5% compared to the previous year.

The main reasons for the 1991-92 change were:

- an increase in Alberta Health Care Insurance Plan premium revenue of $65 million, due to a rate increase of 13% effective July 1, 1991.

- a net increase of $52 million in premiums received from producers for crop insurance mainly due to a new revenue protection program.

Consolidated expenditure comprises:

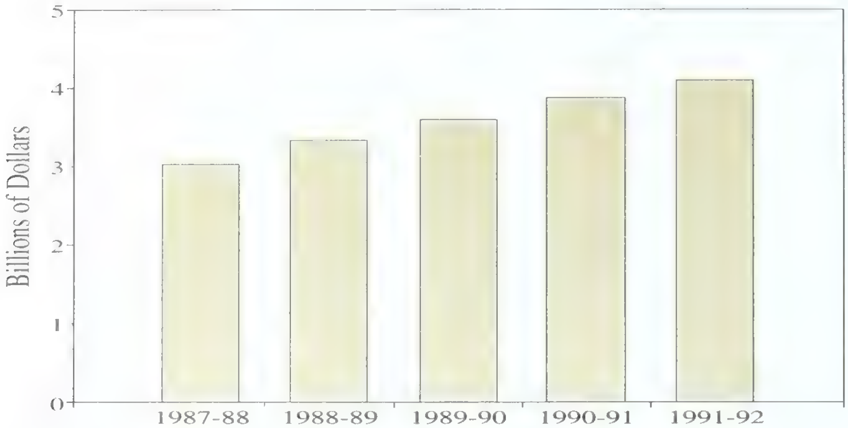
	1989-90	1990-91	1991-92
Health	3,602	3,864	4,093
Education	2,821	2,901	2,960
Social services	1,502	1,567	1,745
Agriculture and economic development	1,598	1,557	1,700
General government:			
Debt servicing costs	850	1,061	1,067
Other	577	620	591
Regional planning and development	847	883	939
Transportation and utilities	1,037	976	881
Protection of persons and property	580	524	579
Environment and resource conservation	346	369	313
Recreation and culture	277	279	276
Housing	148	230	161
Valuation adjustments and provisions	50	380	165
	$14,235	$15,211	$15,470

The following table lists the proportions in which these expenditure categories are responsible for consolidated expenditure:

	1989-90	1990-91	1991-92
	%	%	%
Health	25	26	26
Education	20	19	19
Social services	11	10	11
Agriculture and economic development	11	10	11
General government:			
Debt servicing costs	6	7	7
Other	4	4	4
Regional planning and development	6	6	6
Transportation and utilities	7	7	6
Protection of persons and property	4	3	4
Environment and resource conservation	3	2	2
Recreation and culture	2	2	2
Housing	1	2	1
Valuation adjustments and provisions	0	2	1
	100	100	100

The following charts and comments illustrate and explain some of the more significant variances and trends in the Province's consolidated expenditure during the five years ended March 31, 1992:

Health



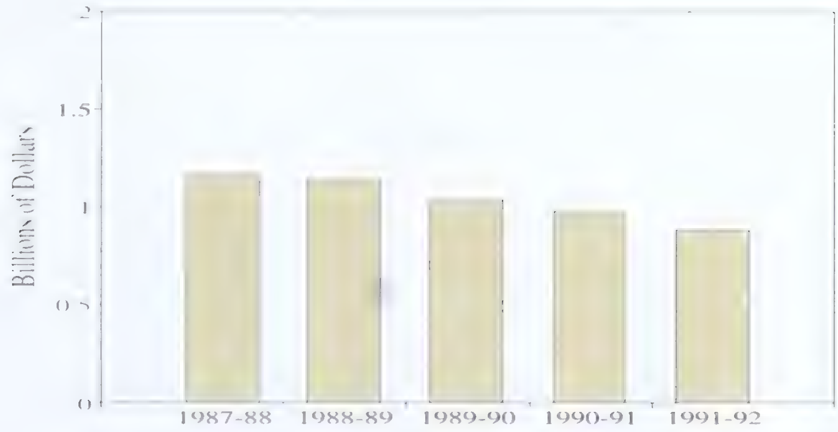
Health expenditure increased by $229 million or 5.9% compared to the previous year.

The main reasons for the 1991-92 change were:

- operating grants for Financial Assistance for Acute Care increased by $94 million (5%).

- expenditures of the Health Care Insurance Fund increased by $78 million (7.1%). Medical service utilization and fee increases were the major cause of this increase.

Transportation and Utilities

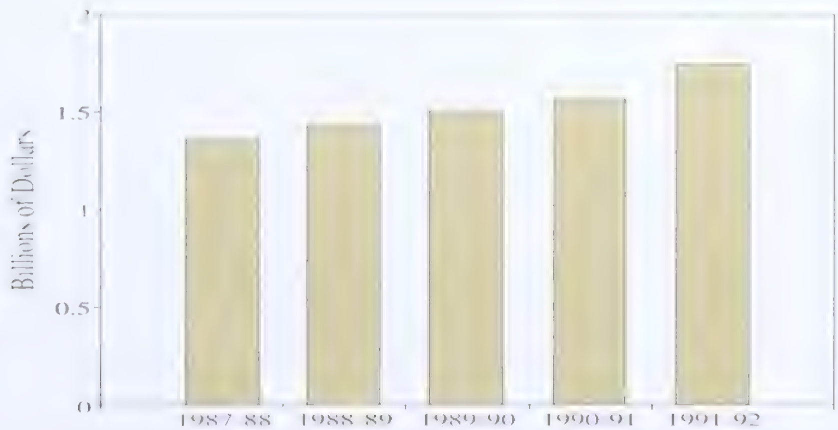


Transportation and Utilities expenditure decreased by $95 million or 9.7% compared to the previous year.

The main reasons for the 1991-92 decrease were:

- expenditure on construction and improvement of roads decreased by $63 million (16.8%).
- financial assistance grants for urban transportation decreased by $34 million (22.5%).

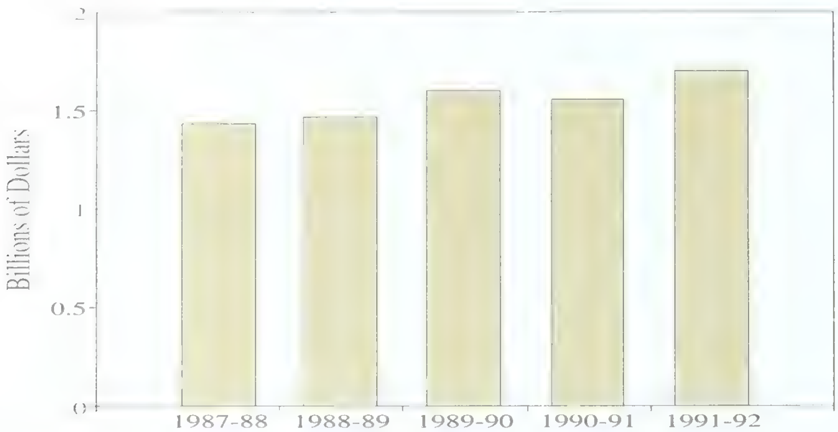
Social Services



Social services expenditure increased by $178 million or 11.4% compared to the previous year.

The main reason for the 1991-92 increase was an increase of $158 million in the expenditures of the Income and Support to Individuals and Families program. The major cause of this increase was a 15% increase in the caseload for supports for independence.

Agriculture and Economic Development



Agriculture and economic development expenditure increased by $143 million or 9.2% compared to the previous year.

The main reasons for the 1991-92 increase were:

- the revenue protection program for crops which commenced in 1991-92 had expenditure of $466 million in its first year of operation.

- the crop insurance fund expenditures decreased $77 million due to a reduction in crop insurance claims.

- in 1990-91 the Canada/Alberta Farm Income Assistance program, which was a one year program, cost $99 million.

- a decrease of $63 million in individual line service, a capital project of the Alberta Heritage Savings Trust Fund.

- a decrease of $63 million in the costs of the Take-Or-Pay Costs Sharing Fund.

CHARTS

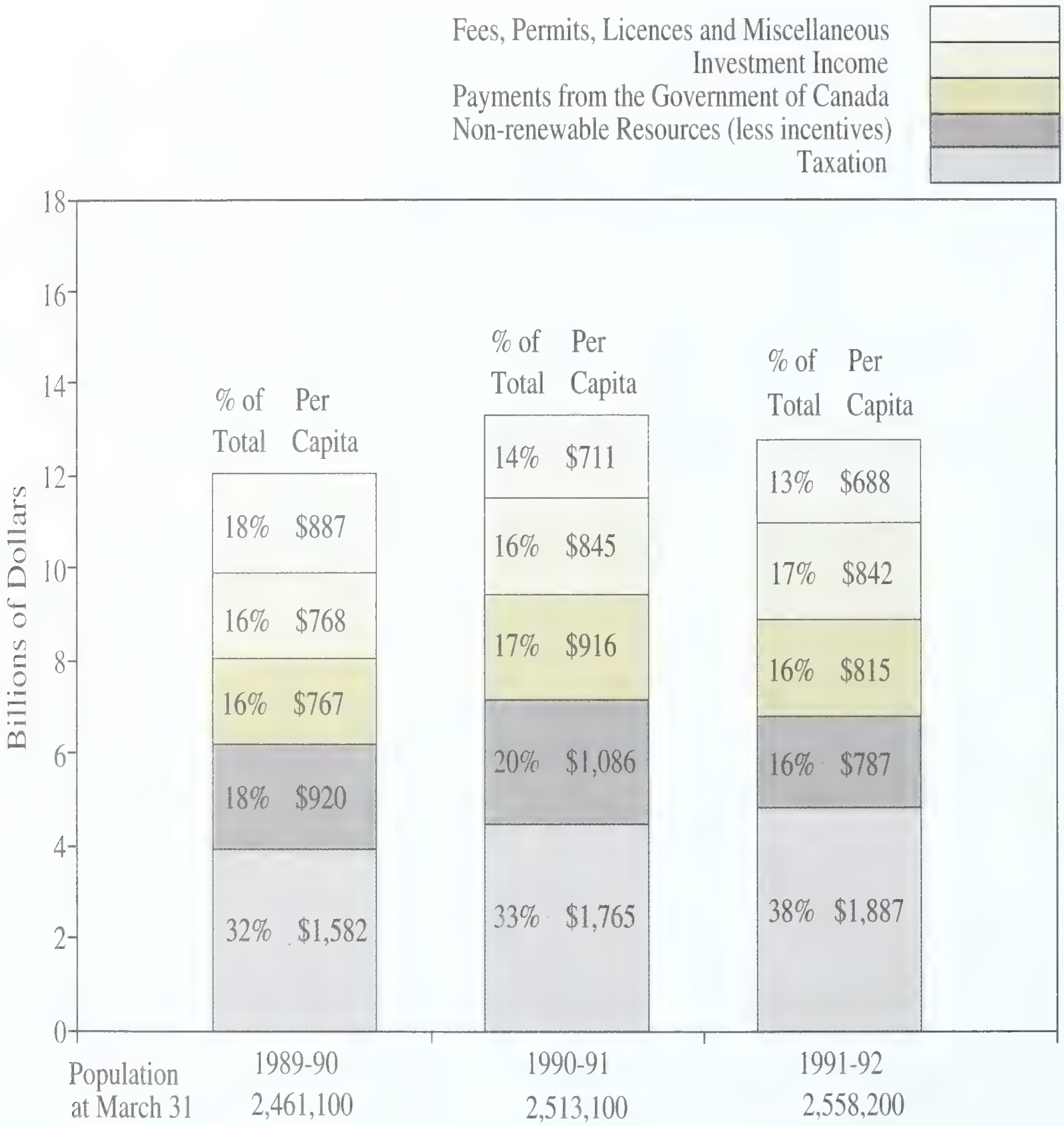
The financial information in the Public Accounts is displayed in a way that satisfies the prevailing legislation and is in accordance with acceptable government reporting practices. The following charts display some of the same financial information in an alternative and simplified manner, and are included in this report pursuant to subsection 19(3)(b) of the Auditor General Act.

In preparing the charts, some revenues and expenditures have been grouped on a generic basis rather than on the basis used in the Public Accounts. For example, in the charts, freehold mineral tax is included in non-renewable resource revenue, whereas in the Public Accounts it is included in tax revenue. Non-renewable resource revenue (net) in the charts is the revenue after deducting costs under the various incentive programs that can be said to relate to the generation of that revenue, viz. royalty tax credits and rebates. In the Public Accounts, royalty tax rebates are reflected as deductions from tax revenue. Valuation adjustments and provisions for losses on guarantees and indemnities have been allocated to major groups in the charts, whereas in the Public Accounts they are shown as one expenditure category.

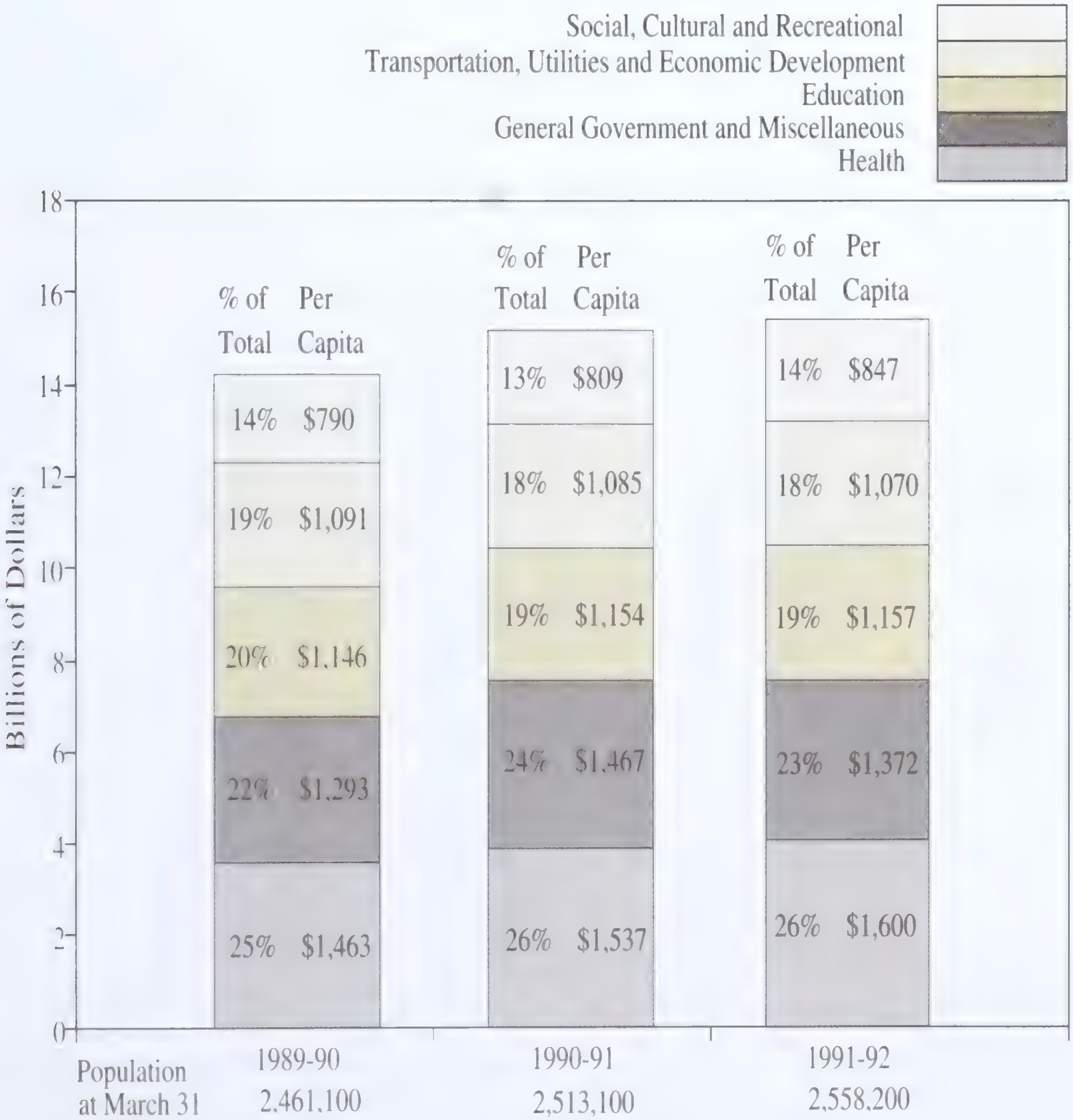
Prior years' figures have been reclassified where necessary to conform to 1991-92 presentation.

Population figures in the charts are per the Alberta Bureau of Statistics. The figures at March 31, 1990, 1991, and 1992, are postcensal estimates.

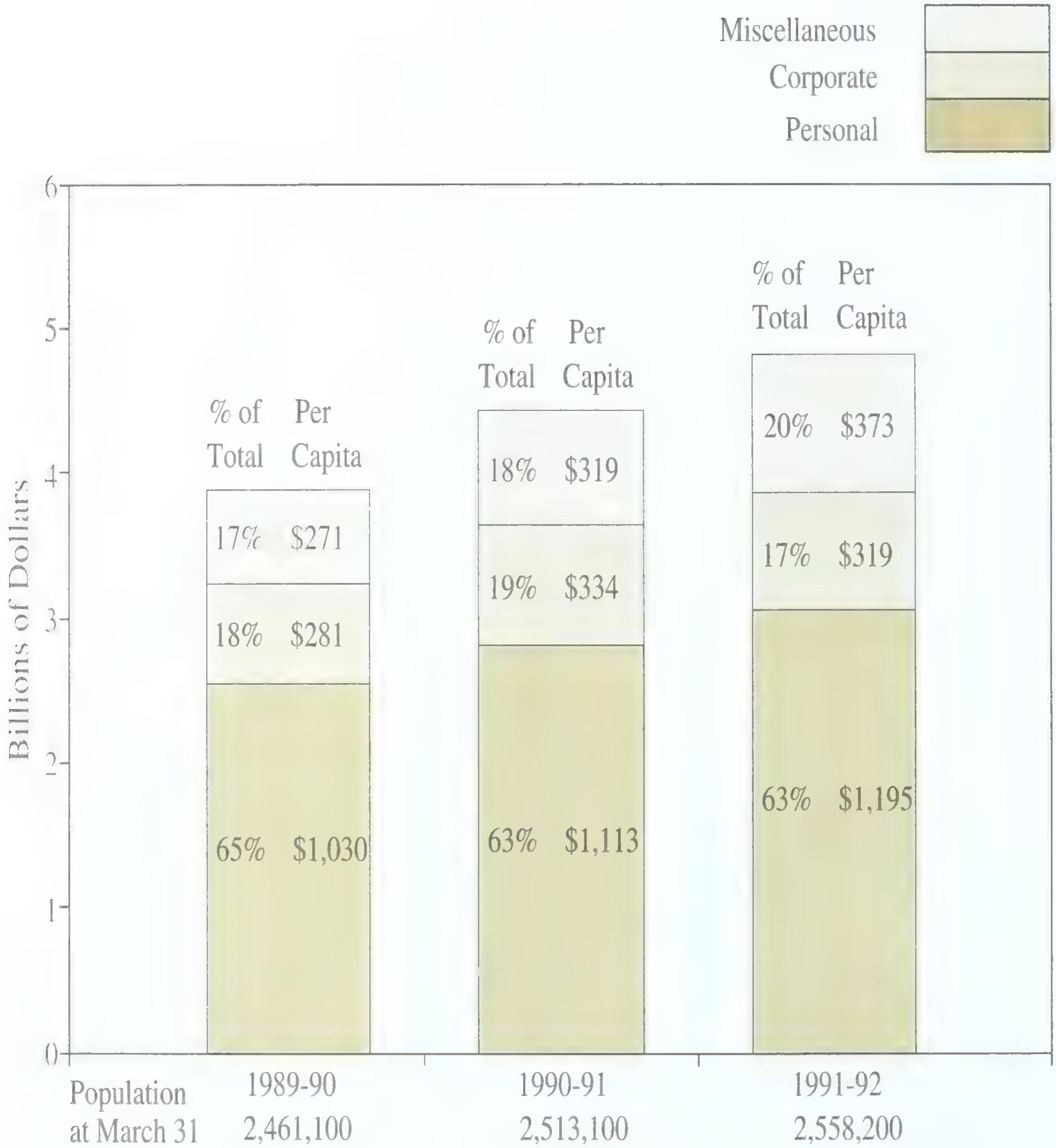
The following chart shows consolidated revenue by major groups, the percentage of such revenue to total consolidated revenue, and revenue per capita, for the past three years:



The following chart shows consolidated expenditure by major groups, the percentage of such expenditure to total consolidated expenditure, and expenditure per capita, for the past three years:



The following chart shows the sources of taxes, the percentage of each source to total taxes, and taxes per capita, for the past three years:



Legislative mandate

The Office of the Auditor General of Alberta was established in 1978 and operates in accordance with the Auditor General Act. As Auditor General, I am the auditor of all government departments, funds containing public money, and Provincial agencies.

The Act deals with my responsibilities as Auditor General by stating what I must and can report, to whom, and when.

Section 18 reports

In section 18 reports I state whether, in my opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the Crown.

The section 18 report on the Province's 1991-92 consolidated financial statements is reproduced on page 162 of this report. Similar reports were issued on the financial statements of all entities of which I am the auditor. These reports are attached to the related financial statements, most of which are published in the Public Accounts of the Province.

Section 19 reports

This is the section 19 report for 1991-92. Section 19 reports are annual reports to the Legislative Assembly on the work of my Office. These reports include audit observations and recommendations arising from that work, together with any other matters that I believe should be brought to the attention of the Legislative Assembly.

Section 17 reports

Under section 17 of the Auditor General Act, the Legislative Assembly or the Executive Council may ask me to perform special duties. Whether those duties result in reports, and to whom the reports are issued, depends on the terms of the request. During the 1991-92 fiscal year, I received no requests from the Legislative Assembly or the Executive Council to perform special duties under section 17.

On May 21, 1992, pursuant to section 17(2) of the Auditor General Act, the President of the Executive Council requested that I review the financial affairs of NovAtel Communications Ltd. and the Province of Alberta with respect to The Alberta Government Telephones Commission's investment in NovAtel. I reported to the President of the Executive Council on NovAtel and also made my report public on September 25, 1992.

Section 20 reports

In reports under section 20, I can report to the Legislative Assembly on any matters of importance or urgency which, in my opinion, should not be delayed until my next annual report.

No reports have been issued under section 20 of the Act since my last annual report.

Section 28 reports

Reports issued under section 28 of the Act are known as management letters. The purpose of management letters, as explained more fully on page 159 of this report, is to communicate to management recommendations for improving the financial administration of the Province.

Management letters are addressed to the deputy minister or senior executive officer of the audited entity. A copy is sent to the minister responsible for the entity except for those Provincial agencies referred to in section 2(5) of the Financial Administration Act.

Types of audit

Throughout section 2 of this report, the term "financial audit" is used repeatedly. In this context, a financial audit encompasses:

- audit procedures considered necessary to support the expression of an opinion on financial statements,

- a review of action taken in response to previous audit observations and recommendations, including those reported to the Legislative Assembly, and

- an examination of transactions and activities examined for other auditing purposes to determine whether they comply with the significant financial and administrative authorities that govern them.

For some audit entities, work additional to the financial audit was completed. Such additional work involves examining systems in depth. The scope of the additional audit work undertaken in 1991-92 is identified in section 2 of this report.

All audit findings, conclusions and recommendations arising from all types of audit activity relating to 1991-92 have been reported to management.

Standing Committee on Legislative Offices

Reports issued under section 19 of the Auditor General Act are tabled in the Legislative Assembly by the Chairman of the Standing Committee on Legislative Offices. Members of the Committee on September 22, 1992, the day the Assembly last adjourned were:

Mr. R.J. Bogle, MLA Chairman
Mr. S.K. Nelson, MLA Deputy Chairman
Mr. J.W. Ady, MLA
Mr. J. Drobot, MLA
Mr. D. Fox, MLA
Mrs. Y. Gagnon, MLA
Mr. A.W. Hyland, MLA
Mr. T. Sigurdson, MLA
Mr. D. Tannas, MLA

The Audit Office continues to have a constructive working relationship with the Committee. I meet with the Committee several times during the year. This allows me to keep the Committee informed of the operations of the Office and to answer questions.

Audit Committee

Before being tabled, my annual reports are made available to an Audit Committee in accordance with section 24 of the Act. The members of the Audit Committee as at the date of this report, all of whom were appointed by Order in Council, are:

Mr. W.G. Stephen, FCA Chairman
Partner
Stephen Johnson, Chartered Accountants
Calgary

Mr. F.R.N. Snell, CA
Partner
Ernst & Young, Chartered Accountants
Calgary

Dr. N.E. Wagner
Chairman of the Board
Alberta Natural Gas Company Ltd.
Calgary

Mr. R.B. Young
Vice-President and Director
Melcor Developments Ltd.
Edmonton

Provincial Treasurer of Alberta

I acknowledge the contribution of the Audit Committee.

Mission

The following statement continues to guide the work of the Audit Office:

> **The mission of the Office of the Auditor General of Alberta is to add credibility to the government's financial reporting and to improve the financial administration of the Province.**

Adding credibility

Accountability means the obligation to answer for a responsibility that has been conferred.

Audit activity supports accountability. I believe that my Office has a role to play in assisting others in their accountability relationships. Audits are not a substitute for good accountability, but they can assist the process and maintain confidence in accountability reports.

Each year, the Government of Alberta presents its expenditure budgets (estimates) for debate in the Legislative Assembly. After the estimates have been formally approved by the Legislature, the government is responsible for their implementation. In this way, the Assembly delegates authority to the government to disburse funds for approved purposes, to manage resources in an economic and efficient manner, and to evaluate the effectiveness of the programs involved.

The Public Accounts contain information which in part satisfies the responsibility to account to the Legislative Assembly on how the funds and resources were administered. Each set of financial statements included in the Public Accounts reflects the assertions of management as to the entity's financial position at year end, the results of its operations and the changes in its financial position.

My responsibility is to bring professional judgment and skill to the examination of these financial statements in order to provide an opinion on them. The result is an Auditor's Report designed to add credibility to the assertions of management.

The Public Accounts Committee acts on behalf of the Members of the Assembly in examining the government's management and control of public resources. My annual report, and the audited financial statements in the Public Accounts, are used by the Committee in its examination of the use and control of public resources.

In section 1 of this report, I have commented on the work of the Public Accounts Committee and made suggestions for improved review of government administration.

Improving financial administration

Accounting, reporting, and auditing are all processes connected with accountability. In my view, however, the basic prerequisite of better accountability is better financial administration. For this reason, the Audit Office wants to help the Legislative Assembly, the government and its administrators focus on the control and management issues critical to sound financial administration.

Accordingly, the Audit Office undertakes in-depth examinations of a selection of management control and information systems each year.

The recommendations that arise from this systems auditing, and from financial statement audits, are designed to help management improve internal control, manage and control resources, promote economy and efficiency, and improve reporting. The change brought about by the successful implementation of these recommendations improves the financial administration of the Province.

In section 1 of this report, I have commented on the Province's budgetary and reporting processes and made suggestions regarding a consolidated budget, capital assets, timely reporting, unrecorded assets and liabilities, and program effectiveness.

Accounting principles, auditing standards and audit approach

The principal source of generally accepted accounting principles and auditing standards is the Handbook of the Canadian Institute of Chartered Accountants. In addition, the Public Sector Accounting and Auditing Committee of the Institute issues accounting and auditing statements. These statements apply to and guide accounting and auditing in the public sector.

Accounting principles

Generally accepted accounting principles is the term used to describe the basis on which financial statements are normally prepared. The term generally accepted accounting principles encompasses not only specific rules, practices and procedures relating to particular circumstances, but also broad principles and conventions of general application. Generally accepted accounting principles are established to produce the fair disclosure of financial information.

The General Revenue Fund and consolidated financial statements of the Province of Alberta are not prepared in accordance with generally accepted accounting principles. The basis of accounting is explained in a note to the financial statements.

The financial statements of most of Alberta's Provincial entities are prepared in accordance with generally accepted accounting principles. In the main, the exceptions relate to the method of accounting for capital assets.

Auditing standards

The work of the Audit Office is carried out in accordance with the auditing standards and recommendations published by the Canadian Institute of Chartered Accountants and its Public Sector Accounting and Auditing Committee.

Audit approach

I believe there is a legislative expectation that the work of my Office should extend beyond seeking reportable matters only as a by-product of financial statement auditing. For this reason, annual audits are approached with three main objectives. In addition to the work designed to attest to the fair presentation of financial statements, the following work is undertaken:

- Management control and information systems are examined on a selective basis. The Audit Office attempts to maximize the usefulness of its work by identifying for examination those systems and practices essential to the successful operation of an entity. The purpose of these examinations is to promote improvements in the systems that management uses to achieve the objectives of the enterprise.

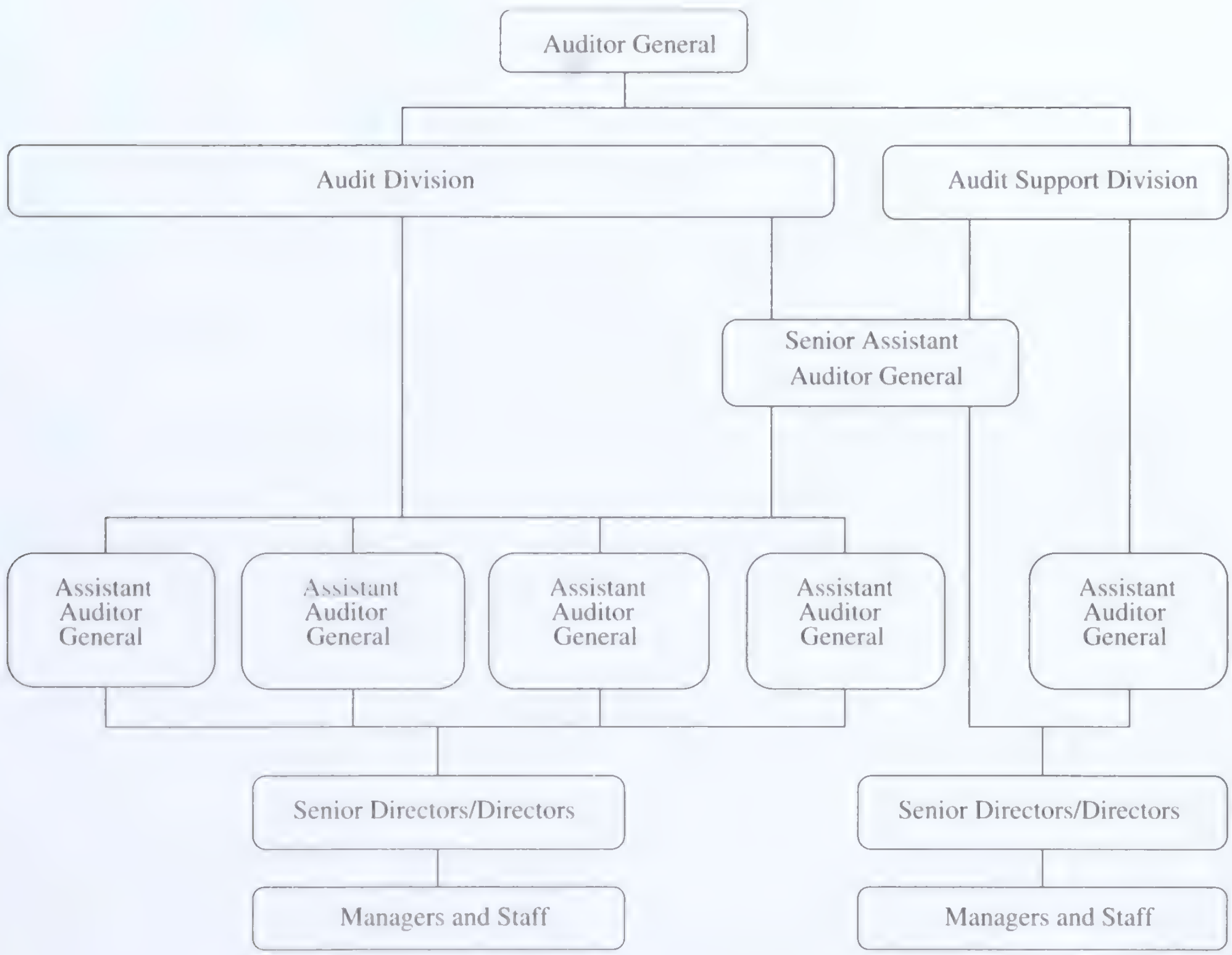
- At the beginning of each audit, significant financial and administrative authorities that impact the entity's operations are identified. During the audit, all transactions examined as part of the financial audit are also examined to determine whether or not they comply with the identified authorities.

  Any observed instances of non-compliance with the identified authorities are reported to management and, where appropriate, to the Legislative Assembly.

The scope of the Audit Office's annual audit activity as described above exceeds the minimum requirements of generally accepted auditing standards for financial audits. This enables me to report more usefully to management and, where appropriate, to the Legislative Assembly.

Organization of the Audit Office

The organization of the Audit Office is as follows:



The Management Committee

The Audit Office is administered by the Management Committee which sets and monitors the achievement of policies designed to discharge the Auditor General's legislatively prescribed responsibilities. The members of the Committee are:

Mr. D.D. Salmon, FCA	Auditor General
Mr. A.J.K. Wingate, CA	Senior Assistant Auditor General
Mr. G.C. Cuthbert, CA	Assistant Auditor General
Mr. J.H. Hug, CA	Assistant Auditor General
Mr. M.G. Morgan, CA	Assistant Auditor General
Mr. D.J. Neufeld, CA	Assistant Auditor General
Mr. N. Shandro, CA	Assistant Auditor General

The Audit Division

The Audit Division is jointly administered by the Senior Assistant Auditor General and four Assistant Auditors General.

Each Assistant Auditor General, with a team of Senior Directors, Directors, Managers and Senior Auditors is responsible for a portfolio of audits. The team is responsible for planning and executing its audits. The work is done with the assistance of Student Auditors who are pursuing professional accounting designations.

The Audit Support Division

The Audit Support Division is jointly administered by the Senior Assistant Auditor General and an Assistant Auditor General.

The Audit Support Division provides a variety of administrative and audit-related services to the Audit Division and to the Office. These include co-ordination of human resource management and professional development, accounting and administration, professional practices, legal advice, computer operations and system development, security, and co-ordination of the preparation of the Auditor General's annual reports.

Agents

The Audit Office has continued the policy of utilizing the services of firms of private sector chartered accountants. These firms act as my agent under section 10 of the Auditor General Act, and their contributions in supplementing the staff resources of the Audit Office are gratefully acknowledged. Agents acting in respect of the fiscal year ended March 31, 1992, were as follows:

Arthur Andersen & Co.
Bevan, Halbert & Ginet
Collins Barrow
Coopers & Lybrand
Dawson, Berezan & Partners
Deloitte & Touche
Doane Raymond Pannell
Ernst & Young
Hudson & Company
Johnston, Morrison, Hunter & Co.
Ladell Perry
Matthew Craig Davies Collins
Mills Unrau Gerlock
Peat Marwick Thorne
Price Waterhouse
Young, Parkyn, McNab & Co.
Watkinson, Hanhart, Duda, Dorchak

Audit Office financial statement

The audited financial statement of the Office of the Auditor General is reproduced in section 8 of the Public Accounts of the Province, in accordance with section 30(4) of the Auditor General Act.

AUDITOR GENERAL ACT

CHAPTER A-49

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HER MAJESTY, by and with the advice and consent of the Legislative Assembly of Alberta, enacts as follows:

Definitions

1 In this Act,

(a) ''Auditor General'' means the Auditor General of Alberta;

(b) ''Crown-controlled organization'' means

(i) a corporation that is incorporated by or under an Act of the Legislature, other than a local or private Act, one or more but less than a majority of whose members or directors are appointed or designated, either by their personal names or by their names of office, by an Act of the Legislature or regulations under an Act of the Legislature, by an order of the Lieutenant Governor in Council or of a Minister of the Crown or by any combination thereof, or

(ii) an unincorporated board, commission, council or other body that is not a department or part of a department, one or more but less than a majority of whose members are appointed or designated, either by their personal names or by their names of office, by an Act of the Legislature or regulations under an Act of the Legislature, by an order of the Lieutenant Governor in Council or of a Minister of the Crown or by any combination thereof,

that is responsible for the administration of public money or assets owned by the Crown, and includes a corporation, more than 50% but less than 100% of whose issued voting shares are owned by the Crown or held in trust for the Crown or are partly owned by the Crown and partly held in trust for the Crown;

(c) "department" means a department as defined in section 1 of the *Financial Administration Act* and includes

(i) the Legislative Assembly Office,

(ii) the Ombudsman and the staff of the Office of the Ombudsman, and

(iii) the Chief Electoral Officer and the staff of the Office of the Chief Electoral Officer;

(d) "employee of the Office of the Auditor General" includes a person engaged on a fee basis by the Auditor General;

(e) "public money" means public money as defined in the *Financial Administration Act* and includes money forming part of the Treasury Branches Deposits Fund;

(f) "regulated fund" means a regulated fund as defined in the *Financial Administration Act* and includes the Treasury Branches Deposits Fund;

(g) "Select Standing Committee" means the Select Standing Committee on Legislative Offices;

(h) "voting share" means a share of any class of shares of a corporation carrying full or limited voting rights ordinarily exercisable at meetings of shareholders of the corporation or a share of any class of shares of a corporation carrying voting rights by reason of a contingency that has occurred and is continuing.

RSA 1980 cA-49 s1;1983 cL-10.1 s57

Meaning of other words

2 Except as provided in section 1, words or expressions defined in the *Financial Administration Act* have the same meaning in this Act.

RSA 1980 cA-49 s2

Appointment of Auditor General

3(1) There shall be appointed pursuant to this Act an Auditor General who shall be an officer of the Legislature.

(2) Subject to section 6, the Lieutenant Governor in Council shall appoint the Auditor General, on the recommendation of the Assembly, for a term not exceeding 8 years.

(3) An Auditor General is eligible for reappointment under subsection (2).

RSA 1980 cA-49 s3

Resignation of Auditor General

4 The Auditor General may at any time resign his office by writing addressed to the Speaker of the Assembly or, if there is no Speaker or if the Speaker is absent from Alberta, to the Clerk of the Assembly.

RSA 1980 cA-49 s4

Suspension or removal from office

5 On the recommendation of the Assembly, the Lieutenant Governor in Council may, at any time, suspend or remove the Auditor General from office.

RSA 1980 cA-49 s5

Vacancy in office

6(1) If a vacancy in the office of the Auditor General occurs while the Legislature is in session but no recommendation is made by the Assembly before the close of that session, subsection (2) applies as if the vacancy had occurred while the Legislature was not in session.

(2) If a vacancy occurs while the Legislature is not in session, the Lieutenant Governor in Council, on the recommendation of the Select Standing Committee, may appoint an Auditor General to fill the vacancy and unless his office sooner becomes vacant, the person so appointed holds office until an Auditor General is appointed under section 3, but if an appointment under section 3 is not made within 30 days after the commencement of the next ensuing session, the appointment under this subsection lapses and there shall be deemed to be another vacancy in the office of Auditor General.

RSA 1980 cA-49 s6

Salary and benefits

7(1) The Auditor General shall be paid a salary at a rate set by the Select Standing Committee and the Select Standing Committee shall review that salary rate at least once a year.

(2) The Auditor General shall receive similar benefits as are provided to Deputy Ministers.

RSA 1980 cA-49 s7

Acting Auditor General

8(1) The Auditor General may appoint an employee of the Office of the Auditor General as Acting Auditor General.

(2) If there is neither an Auditor General nor an Acting Auditor General, the Lieutenant Governor in Council may appoint a person as Acting Auditor General to hold office until an Acting Auditor General is appointed under subsection (1).

(3) In the event of the absence or inability to act of the Auditor General, or when there is a vacancy in the office of the Auditor General, the Acting Auditor General has all the powers and shall perform the duties of the Auditor General.

RSA 1980 cA-49 s8

Office of the Auditor General

9(1) There shall be a department of the public service of Alberta called the Office of the Auditor General consisting of the Auditor General and those persons employed pursuant to the *Public Service Act* as are necessary to assist the Auditor General in carrying out his functions under this or any other Act.

(2) On the recommendations of the Auditor General, the Select Standing Committee may order that

(a) any regulation, order or directive made under the *Financial Administration Act*, or

(b) any regulation, order, directive, rule, procedure, direction, allocation, designation or other decision under the *Public Service Act*,

be inapplicable to, or be varied in respect of, the Office of the Auditor General or any particular employee or class of employees in the Office of the Auditor General.

(3) An order made under subsection (2)(a) in relation to a regulation, order or directive made under the *Financial Administration Act* operates notwithstanding that Act.

(4) The *Regulations Act* does not apply to orders made under subsection (2).

(5) The chairman of the Select Standing Committee shall lay a copy of each order made under subsection (2) before the Assembly if it is then sitting or, if it is not then sitting, within 15 days after the commencement of the next sitting.

RSA cA-49 s9;1983 cL-10.1 s57

Engagement of services on fee basis

10 The Auditor General may engage, on a fee basis, any person to act as his agent for the purpose of conducting an audit or examination that the Auditor General is empowered or required to conduct or to perform a service that the Auditor General considers necessary in order to properly exercise or perform his powers and duties.

RSA 1980 cA-49 s10

Delegation of power or duty

11(1) Subject to subsection (2), the Auditor General may delegate to an employee of the Office of the Auditor General any power or duty conferred or imposed on the Auditor General by this or any other Act.

(2) The Auditor General may not delegate a power or duty to report

(a) to the Assembly or a committee of the Assembly, without the consent of the Assembly or the committee to which the report is to be made, or

(b) to the Lieutenant Governor in Council, without the consent of the Lieutenant Governor in Council.

RSA 1980 cA-49 s11

Auditor General as auditor

12 The Auditor General

(a) is the auditor of every department, regulated fund, revolving fund and Provincial agency, and

(b) may with the approval of the Select Standing Committee be appointed by a Crown-controlled organization or any other organization or body as the auditor of that Crown-controlled organization or other organization or body.

RSA 1980 cA-49 s12

Financing of operations

13(1) The Auditor General shall submit to the Select Standing Committee in respect of each fiscal year an estimate of the sum that will be required to be provided by the Legislature to defray the several charges and expenses of the Office of the Auditor General in that fiscal year.

(2) The Select Standing Committee shall review each estimate submitted pursuant to subsection (1) and, on the completion of the review, the chairman of the Committee shall transmit the estimate to the Treasurer for presentation to the Assembly.

(3) If at any time the Legislative Assembly is not in session the Select Standing Committee, or if there is no Select Standing Committee, the Provincial Treasurer,

(a) reports that the Auditor General has certified that in the public interest, an expenditure of public money is urgently required in respect to any matter pertaining to his office, and

(b) reports that either

(i) there is no supply vote under which an expenditure with respect to that matter may be made, or

(ii) there is a supply vote under which an expenditure with respect to that matter may be made but the authority available under the supply vote is insufficient,

the Lieutenant Governor in Council may order a special warrant to be prepared to be signed by himself authorizing the expenditure of the amount estimated to be required.

(4) When the Legislative Assembly is adjourned for a period of more than 14 days then, for the purposes of subsection (3), the Assembly shall be deemed not to be in session during the period of the adjournment.

(5) When a special warrant is prepared and signed under subsection (3) on the basis of a report referred to in subsection (3)(b)(i), the authority to spend the amount of money specified in the special warrant for the purpose specified in the special warrant is deemed to be a supply vote for the purposes of the *Financial Administration Act* for the fiscal year in which the special warrant is signed.

(6) When a special warrant is prepared and signed under subsection (3) on the basis of a report referred to in subsection (3)(b)(ii), the authority to spend the amount of money specified in the special warrant is, for the purposes of the *Financial Administration Act,* added to and deemed to be part of the supply vote to which the report relates.

(7) When a special warrant has been prepared and signed pursuant to this section, the amounts authorized by it are deemed to be included in, and not to be in addition to, the amounts authorized by the Act, not being an Act for interim supply, enacted next after it for granting to Her Majesty sums of money to defray certain expenditures of the Public Service of Alberta.

RSA 1980 cA-49 s13;1983 cL-10.1 s57

Auditor General may charge fees

14 The Auditor General may charge fees for professional services rendered by his Office on a basis approved by the Select Standing Committee.

RSA 1980 cA-49 s14

Access to information

15(1) The Auditor General is entitled to access at all reasonable times to

(a) the records of a department, fund administrator or Provincial agency, and

(b) electronic data processing equipment owned or leased by a department, fund administrator or Provincial agency,

for any purpose related to the exercise or performance of his powers and duties under this or any other Act.

(2) A public employee, public official or personal service contractor shall give to the Auditor General any information, reports or explanations that the Auditor General considers necessary to enable him to exercise or perform his powers and duties under this or any other Act.

(3) The Auditor General may station in the offices of any department, fund administrator or Provincial agency, any employee of the Office of the Auditor General for the purpose of enabling the Auditor General to more effectively exercise or perform his powers and duties under this or any other Act, and the department, fund administrator or Provincial agency shall provide the necessary office accommodation for an employee so stationed.

(4) The Auditor General or an employee of the Office of the Auditor General who receives information from a person whose right to disclose that information is restricted by law, holds that information under the same restrictions respecting disclosure as governed the person from whom the information was obtained.

RSA 1980 cA-49 s15

Right to information

16(1) If the accounts of a Crown-controlled organization are audited other than by the Auditor General, the person performing the audit shall

(a) deliver to the Auditor General immediately after completing the audit a copy of the report of his findings and his recommendations to management and a copy of the audited financial statements of the Crown-controlled organization,

(b) make available immediately to the Auditor General on his request all working papers, reports, schedules and other documents in respect of the audit or in respect of any other audit of the Crown-controlled organization specified in the request, and

(c) provide immediately to the Auditor General on his request a full explanation of the work performed, tests and examinations made and the results obtained, and any other information within the knowledge of the person in respect of the Crown-controlled organization.

(2) If any information, explanation or document required to be delivered to or requested by the Auditor General under subsection (1) is not delivered, made available or provided to him or if the Auditor General is of the opinion that any information, explanation or document that is delivered, made available or provided to him pursuant to subsection (1) is not adequate to permit him to exercise or perform his powers and duties under this or any other Act, the Auditor General may make any additional examination or investigation of the records and operations of the Crown-controlled organization that he considers necessary.

RSA 1980 cA-49 s16

Special duties of Auditor General

17(1) The Auditor General shall perform such special duties as may be specified by the Assembly.

(2) The Auditor General shall perform such special duties as may be specified by the Executive Council, but only if those special duties do not conflict with or impair the exercise or performance of any of his powers and duties under this or any other Act.

1977 c56 s17

Annual report on financial statements

18(1) After the end of each fiscal year of the Crown, the Auditor General shall report to the Assembly on the financial statements of the Crown for that fiscal year.

(2) A report of the Auditor General under subsection (1) shall

(a) include a statement as to whether, in his opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the Crown in accordance with the disclosed accounting principles, and as to whether they are on a basis consistent with that of the preceding fiscal year,

(b) when the report contains a reservation of opinion by the Auditor General, state his reasons for that reservation and indicate the effect of any deficiency on the financial statements, and

(c) include any other comments related to his audit of the financial statements that he considers appropriate.

1977 c56 s18

Annual report of Auditor General

19(1) After the end of a fiscal year of the Crown, the Auditor General shall report to the Legislative Assembly

(a) on the work of his office, and

(b) on whether, in carrying on the work of his office, he received all the information, reports and explanations he required.

(2) A report of the Auditor General under subsection (1) shall include the results of his examinations of the organizations of which he is the auditor, giving details of any reservation of opinion made in an audit report, and shall call attention to every case in which he has observed that

(a) collections of public money

(i) have not been effected as required under the various Acts and regulations, directives or orders under those Acts,

(ii) have not been fully accounted for, or

(iii) have not been properly reflected in the accounts,

(b) disbursements of public money

(i) have not been made in accordance with the authority of a supply vote, Heritage Fund vote or relevant Act,

(ii) have not complied with regulations, directives or orders applicable to those disbursements, or

(iii) have not been properly reflected in the accounts,

(c) assets acquired, administered or otherwise held have not been adequately safeguarded or accounted for,

(d) accounting systems and management control systems, including those systems designed to ensure economy and efficiency, that relate to revenue, disbursements, the preservation or use of assets or the determination of liabilities were not in existence, were inadequate or had not been complied with, or

(e) when appropriate and reasonable procedures could have been used to measure and report on the effectiveness of programs, those procedures were either not established or not being complied with,

and shall call attention to any other case that he considers should be brought to the notice of the Assembly.

(3) In a report under subsection (1), the Auditor General may

(a) comment on the financial statements of the Crown, Provincial agencies, Crown-controlled organizations or any other organization or body of which he is the auditor on any matter contained in them and on

(i) the accounting policies employed, and

(ii) whether the substance of any significant underlying financial matter that has come to his attention is adequately disclosed,

(b) include summarized information and the financial statements of an organization on which he is reporting or summaries of those financial statements, and

(c) comment on the suitability of the form of the estimates as a basis for controlling disbursements for the fiscal year under review.

(4) The annual report shall be presented by the Auditor General to the chairman of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

(5) The Auditor General need not report on deficiencies in systems or procedures otherwise subject to report under subsection (2)(d) or (e) which, in his opinion, have been or are being rectified.

1977 c56 s19

Special reports

20(1) The Auditor General may prepare a special report to the Assembly on any matter of importance or urgency that, in his opinion, should not be deferred until the presentation of his annual report under section 19.

(2) A report prepared pursuant to this section shall be presented to the chairman of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

1977 c56 s20

Establishment of Audit Committee

21(1) There is hereby established a committee called the Audit Committee consisting of not more than 7 persons appointed as members of the Committee by the Lieutenant Governor in Council.

(2) The Lieutenant Governor in Council shall designate one of the members of the Audit Committee as chairman.

(3) The Lieutenant Governor in Council may authorize, fix and provide for the payment of remuneration and expenses to the members of the Audit Committee.

1977 c56 s21

Meetings of Audit Committee

22(1) The Audit Committee may make rules, not inconsistent with this Act, respecting the calling of, and the conduct of business at, its meetings.

(2) The chairman of the Audit Committee shall, on request of the Auditor General, call a meeting of the Audit Committee to review any matter that the Auditor General considers should be brought to the attention of the Audit Committee.

1977 c56 s22

Information re scope and results of audit

23 The Auditor General shall give to the Audit Committee any information that he considers reasonable and appropriate to enable the Audit Committee to advise the Lieutenant Governor in Council on the scope and results of the Auditor General's audit of departments, regulated funds, revolving funds, Provincial agencies and Crown-controlled organizations.

1977 c56 s23

Availability of reports

24 An annual report of the Auditor General and any special report made under section 20 shall be made available to the Audit Committee before it is presented to the chairman of the Select Standing Committee.

1977 c56 s24

When report not required

25 In a report made under this or any other Act the Auditor General need not report on matters that are, in his opinion, immaterial or insignificant.

1977 c56 s25

Supplementary information

26 The Auditor General shall, at the request of a select standing committee of the Assembly engaged in reviewing financial statements of the Crown or an organization of which he is the auditor, attend the meetings of the committee in order to give supplementary information to the committee respecting the financial statements or a report of the Auditor General.

1977 c56 s26

Audit working papers

27 Audit working papers of the Office of the Auditor General shall not be tabled in the Legislative Assembly or before a Committee of the Legislative Assembly.

1977 c56 s27

Report after examination

28 The Auditor General shall as soon as practicable advise the appropriate officers or employees of a department, Provincial agency or Crown-controlled organization of any matter discovered in his examinations that, in the opinion of the Auditor General, is material to the operation of the department, Provincial agency or Crown-controlled organization, and shall as soon as practicable advise the Treasurer of any of those matters that, in the opinion of the Auditor General, are material to the exercise or performance of the Treasurer's powers and duties.

1977 c56 s28

Advice on organization, systems, etc.

29 The Auditor General may, at the request of a department, Provincial agency or Crown-controlled organization or any other organization or body of which he is the auditor, provide advice relating to the organization, systems and proposed course of action of the department, Provincial agency or Crown-controlled or other organization or body.

1977 c56 s29

Annual audit

30(1) The Select Standing Committee shall appoint an auditor to audit the receipts and disbursements of the Office of the Auditor General.

(2) An auditor appointed under subsection (1) has the same powers and shall perform the same duties in relation to an audit of the receipts and disbursements of the Office of the Auditor General as the Auditor General has or performs in relation to an audit of the receipts and disbursements of a department.

(3) An auditor appointed under subsection (1) shall report the results of his audit annually to the Select Standing Committee.

(4) A report made under this section shall be presented to the chairman of the Select Standing Committee and to the Treasurer for inclusion in the public accounts.

1977 c56 s30

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